FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 29,967 Monday June 30 1986 D 8523 B

America is just wild about wisdom, Page 14

World news

Business summary

Poland prepares partial amnesty

The Polish authorities are prepared to free some political prisoners because of the waning influence of Solidarity, the outlawed trade union, General Wojciech Jaruzelski said at the opening of the country's first Communist Party Congress since 1981.

In the presence of Mikhail Gorbachev, the Soviet leader, Gen Jaruzelski told delegates that "anti-state groups" were increasingly isolated and that this meant that "another chance could be given to them to return to normal life."

Several thousand demonstrators were blocked by police when they tried to march in Poznan after a mass to commemorate the 1956 riots in which dozens of workers were shot by security forces. Page 18

World Cup win

Argentina beat West Germany 3–2 in the World Cup final.

Peru coup warning

Former West German Chancellor Willy Brandt, who returned from a visit to Peru last week, said that there was an imminent danger of a coup there. He said left-wing guerilla violence was helping to pave the way for a takeover by forces opposed to Peruvian President Alan Garcia.

Pope for Colombia

Pope John Paul will leave Vatican City tomorrow for a week-long trip to Colombia. He will visit the site of Armero, the city buried last year when the Nevado del Ruiz volcano erupted.

Bomb attack foiled

Police found 40kg of explosives planted near the West German nuclear power station of Grundremmingen, police in Bavaria said. Letters demanding closure of the plant were also found.

Camp evacuated

Twenty-one wounded Palestinians were evacuated from two refugee camps as Lebanese troops enforced a peace plan to curb fighting between Amal and Palestinians in Beirut's Moslem sector.

Air raid 'kills 5'

Iran said Iraqi aircraft bombed two villages, killing five civilians and wounding 28, after Iraq gave a warning of a new "war of cities" over Iranian missile strikes against its northern oil town of Kirkuk. Iran denied attacking residential areas.

Murderer hanged

Youssef Issakan, 38, was hanged in a Tehran square near the home of a woman and two children he killed in April. The dawn execution was watched by 200 people.

UK election pointer

The British Government's legislative programme to be outlined in the Queen's Speech in November will be lighter than in the past three years to allow for a possible general election in the autumn of 1987. Page 18

Hindus arrested

Indian police arrested more than 100 Hindu militants in pre-dawn raids to try to avert violence during a Hindu protest in the Punjab state.

Fishing boat seized

Spanish coastguards seized a French fishing boat and seven crew in Spanish waters off the Basque coast close to a disputed fishing ground.

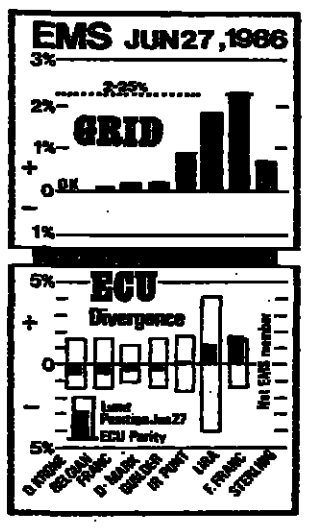
Branson's record

Richard Branson's Virgin Atlantic Challenger II crossed the finishing line off south-west England more than two hours inside the previous record for a transatlantic sea crossing.

US fears over fall in chip orders

A SHARP decline in orders has the US semiconductor industry worried that its recovery may have stalled. Page 22

EUROPEAN Monetary System: Currencies traded quietly last week. The French franc remained the strongest currency followed by the Italian lira. With the exception of the Irish punt other currencies were placed close together at the bottom. However none was close to its divergence limit. The D-Mark failed to make any progress against the French franc despite strong signs that West German interest rates would not be encouraged to fall. Speculation before the fall of the Italian Government had no effect on the lira.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

TOKYO: Nikkei index closed 46.99 up at 17,547.42 after its Saturday half-session. World stock markets, Page 33

EGYPT has asked international consortia to extend until December 25 bids for a $1bn nuclear power plant, the second delayed decision. Page 4. Egypt has fallen almost $1bn behind on foreign debt repayments, say banking and diplomatic sources.

WESTERN governments will be forced to increase reliance on oil and gas for electricity generation in the 1990s unless they take prompt decisions to build new nuclear or coal-fired power stations, says the Paris-based International Energy Agency. Page 18

SOVIET hard currency earnings declined sharply due to the drop in the value of oil exports. Page 4

ASEAN countries have been urged by the US and EEC to lower their substantial protectionist barriers to deflect restrictive trade pressures in their overseas markets. Page 4

UK PUBLIC spending should be cut by 30 per cent over the next decade, say the Institute of Directors. Page 7

DIXONS, the UK electrical retailing group, and Woolworth Holdings, the target of its £1.8bn ($2.72bn) takeover bid, today begin the final three days of lobbying Woolworth shareholders. Page 5

WOOD GUNDY and Gordon Capital Corporation have called off a planned merger which would have formed Canada's biggest securities firm. Page 19

AMERITECH, one of the seven regional Bell telephone companies, has won a US court ruling allowing it to make telephone equipment overseas. Page 22

UGANDA AIRLINES, the country's national carrier, will reduce its workforce of 1,100 by 40 per cent as part of a plan to bring the ailing company back into profit, general manager Adoko Nekyon said.

Reagan likely to shift emphasis of Pretoria policy

BY REGINALD DALE, US EDITOR, IN WASHINGTON

THE REAGAN Administration has begun a major reappraisal of its policy of "constructive engagement" towards South Africa, in the light of continuing intransigence by Pretoria and pressure from the US Congress, a senior US official said at the weekend.

Although the review would probably lead to a "shift of emphasis" in US policy, it was not likely to involve support for further US economic sanctions, which Mr Reagan continues to oppose. Rather, it would concentrate on trying to promote a dialogue between the white government and moderate black leaders, the official said.

In that context, the official revealed that Washington had quietly opened indirect contact with leaders of the banned African National Congress (ANC), which Administration conservatives had in the past denounced as a Communist front. So far, the purpose of the contacts was mainly "information gathering."

Washington would also put out feelers to Mr Oliver Tambo, the president of the ANC, who held his first official talks with the British Government at ministerial level in London last week, the official said.

Washington was reported to be working closely with Britain, which shares its opposition to sanctions, to try to foster a negotiated settlement.

The policy review was being conducted by the State Department and the National Security Council and would produce recommendations for Mr Reagan in a few weeks, the official said. It could lead to expanded and more open contacts with black leaders, although Washington would try to avoid the more Marxist-leaning members of the ANC and other opposition groups.

The review comes amid mounting frustration in Washington over Pretoria's declaration of a state of emergency earlier this month, despite Mr Reagan's repeated appeals for restraint, after the increased level of violence and reports of the growing radicalisation of young South African blacks. The Administration is also concerned that Pretoria appears to be becoming more contemptuous of world opinion

At the same time, pressure for more US sanctions is growing despite the recent House approval of legislation that would impose a complete trade embargo on South Africa, except for imports of certain strategic materials. The Bill would give US companies six months to close their operations in the country.

Although the legislation has little chance of approval in the Republican-led Senate, the White House is fully aware that the general mood in Congress is in favour of tougher action.

The US would still continue to remain "engaged" in South Africa to try to influence the Government, the official said. Under the policy of "constructive engagement", Washington has been trying to work through behind-the-scenes diplomatic manoeuvres rather than sanctions, which it argues to be ineffective and damaging to the black community.

Nevertheless, a senior official said that one reason for the policy review was the recent report by the Commonwealth Eminent Persons Group, which concluded that Pretoria was not interested in negotiating and called on the US and other countries to impose wide-ranging economics sanctions.

The official added that Washington believed that the Commonwealth group had given up too early. The Administration would now like to pursue a similar attempt to seek a negotiated solution in co-operation with the UK Government.

Cossiga starts talks to resolve Rome crisis

BY JAMES BUXTON IN ROME

PRESIDENT Francesco Cossiga, the Italian head of state, today begins consultations with political leaders aimed at resolving the government crisis which broke out last Friday when Mr Bettino Craxi, the Socialist Prime Minister, submitted his resignation.

The Socialist Party, the second largest in the five-party, centre-left coalition after the Christian Democrats, made clear over the weekend that it intends to fight for a return to power by Mr Craxi.

The Socialists are likely to insist that Mr Craxi's position in a new government is reinforced by a sweeping Cabinet reshuffle and that his coalition partners, the Christian Democrats, impose no limit on how long he stays in office.

The Christian Democrat leadership does not appear to be averse to Mr Craxi staying in office, but only on a strictly temporary basis. They would insist that he undertook to hand over office to a Christian Democrat prime minister towards the end of this year, and to emphasise the temporary nature of the arrangement, would insist that the composition of his Cabinet remained much the same as it is now.

The differences between the two parties were aggravated at the weekend by a continuing exchange of accusations over who was responsible for the Government's defeat in parliament on Thursday night.

The coalition was beaten by 27 votes on a local government finance bill in a secret ballot, only minutes after winning by a margin of 108 a vote of confidence held by a roll call vote.

The Christian Democrats strenuously deny that their own, frequently undisciplined, members of parliament were among the 20 or so Deputies who switched sides between votes. The Christian Democrat party newspaper, Il Popolo, accused the Socialists of practising "euthanasia" by voting against their Government.

According to this theory, many Socialist members, whose total strength is 73, cast their votes against the Government, adding to the number of dissidents from other parties, in order to create the conditions for Mr Craxi to resign and then insist on being given more

Continued on Page 18

Ministers to boost Eureka with 50 more development projects

BY GUY DE JONQUIERES IN LONDON

EUREKA, the European programme of industrial collaboration in high-technology, is due to receive fresh impetus at a meeting in London today of about 40 ministers from the 18 countries involved in it.

The ministers are expected to approve about a further 50 joint development projects involving companies from different European countries, in addition to the 26 already agreed. They also plan to establish a permanent Eureka secretariat and decide on a site for it.

Today's meeting, which will be chaired by Mr Paul Channon, Britain's Trade and Industry Secretary comes just over a year after the French Government first suggest Eureka as a European response President Ronald Reagan's Str gic Defence Initiative Star Wars

Initially proposed as a schem collaboration in defence technol Eureka has since evolved into a gramme for encouraging joint velopment of commercial prod and services with clearly-defi market applications, particularl the area of information technol

Participants include all 12 member-countries and the E pean Commission, plus Aust Finland, Norway, Sweden, Swit land and Turkey. Although Eur has no funds of its own, many companies taking part in it are receiving support from their national governments.

Projects approved since the last Eureka ministerial meeting in Hanover, West Germany, in November include joint work by companies from two or more European countries on advanced microchip technology, robots, computer software, medical diagnostic equipment and leather treatment techniques.

Full details of the 50 projects due to be approved today have not been ut a total of 20 British are involved in about According to Mr Geof Information Technology the Department of Industry (DTI), the UK expects to provide ($76.6m) a year in support of Eureka projects.

y will come out of the Support for Innova and will cover up companies' re their expected to keep subsidies below the high levels previously planned.

The ministers are expected to decide to set up a small Eureka secretariat with about a dozen staff. It will be based either in Brussels or Strasbourg, with the former the favoured candidate.

The meeting will also discuss how to respond to approaches from countries including Iceland and Yugoslavia which have expressed interest in joining Eureka. Some participating governments, including the UK, do not want to enlarge the programme's membership until it has developed further.

One politically sensitive issue, likely to remain in the background today, is whether companies operating in Europe but with headquarters elsewhere should be allowed to take part in Eureka projects.

Mr Pattie said last week that he believed such companies should be admitted only if they could contribute unique expertise. "We are not setting up this programme with a view to stimulating the technological development of companies se beneficial ownership lies ere," he said.

an high-tech survey, tion IV

ent Page 16

Mission to South Africa defended by Howe

By Peter Riddell in London

SIR GEOFFREY HOWE, the UK Foreign Secretary, yesterday claimed that his mission to South Africa next month had the backing not just of the EEC but also of world opinion.

His comments were made in face of widespread criticism of the agreement on Friday by the EEC heads of government to send Sir Geoffrey to South Africa and meanwhile to delay any decision on the imposition of sanctions.

No date has been fixed for the visit, but it is almost certain to be towards the end of July, depending on talks with the Pretoria administration about the status and scope of the mission. This would be just before the Commonwealth leaders meet in London in early August. There were further reports over the weekend about possible Commonwealth diplomatic reprisals against the UK if sanctions are not agreed then.

The British approach is being closely co-ordinated with Washington and Tokyo, and a meeting is possible, though not yet confirmed, next month between Sir Geoffrey and Mr George Shultz, the US Secretary of State, especially since the Soviet Foreign Minister will be visiting London in a fortnight's time.

During an interview on BBC radio, Sir Geoffrey stressed the international nature of current discussions. He said it was "very important" for his mission to be seen in the role of Britain's presidency of the EEC at the invitation of the 12 member countries, so that "any unwillingness to respond to that mission will not just be saying no to me or Margaret Thatcher but to the whole weight of the European Community."

Stressing the "foolishness" of driving the Pretoria administration into a laager, he said he would not be going with "a big stick" but with the aim of supporting those who wanted change, including a large part of South African political and business opinion and even part of the Government. He would be going with "the overwhelming weight of commonsense and moral justice felt by the whole world."

At the end of his six-day visit to South Africa and Zambia, Mr Denis Healey, the UK Labour Party's shadow Foreign Secretary, said from Lusaka that black leaders would not see Sir Geoffrey because they considered him "the emissary of Mrs Thatcher." Mr Healey argued that the Commonwealth leaders must back "really meaningful sanctions."

Bonn supports Hermes space programme

BY PAUL BETTS IN PARIS

WEST EUROPEAN countries have agreed to support the French-designed FFr 20bn ($2.85bn) Hermes manned space vehicle programme after a three-day meeting in Paris of the European Space Agency (ESA).

The meeting saw West Germany, which has been extremely reticent about the project, vote in favour of turning the programme into a European collaboration.

France has long sought to win Bonn's backing to construct two spacecraft, which would be slightly smaller than the US space shuttle and be able to carry six astronauts each by 1995-96.

But Bonn up to now has shown only lukewarm support for the project. Mr Helmut Kohl, the West German Chancellor, only recently reiterated Bonn's position that it would wait until next spring before deciding whether to back the project.

At the ESA meeting, however, the West German representative, with a wide majority of participants, voted in favour of transforming the French-inspired project into a European collaboration programme.

France intends to finance about 50 per cent of the programme, which is to be headed by Aerospatiale, the French state aerospace group already chosen to lead the industrial consortium for the European space shuttle by CNES, the French national space research agency.

France would like to see West Germany become the second main partner in the programme with a 20 to 25 per cent share of the development costs.

Italy and Belgium have both indicated that they would be prepared to take 13 per cent and 7 per cent stakes respectively, while the UK, which like West Germany has been reticent about the programme, would also consider taking a small stake.

The 11-nation ESA is due to meet again in the autumn to define the programme's preparatory stages, including work-sharing and financial participation. The official go-ahead to launch the European space shuttle programme should be given, if consensus is maintained by the participating governments, in the spring of next year.

But the ESA believes the project has now made a significant step forward by adopting the necessary enabling resolution to go for the project's preparatory phase. The meeting showed that European countries wanted to work together towards "ensuring Europe's independence in space," according to a statement from the agency.

Opec considers new output sharing plan

BY RICHARD JOHNS IN BRIONI, YUGOSLAVIA

MEMBERS of the Organisation of Petroleum Exporting Countries (Opec) were last night considering proposals for a new output-sharing system under a ceiling of 17.9m barrels a day during the fourth quarter of 1986, agreed upon by the majority.

There was only a slender prospect of an accord on quotas being reached and delegates were talking about the need to convene another conference in August. Even then a plausible pact would require a drastic modification of demands for substantial increases in quotas for Iraq and the United Arab Emirates.

Opec is bracing itself in the short-term for a probable collapse in prices to below $10 per barrel in the wake of this meeting. Its experts estimate a stock build-up in the April-June period averaging as much as 2m barrels a day (b/d), largely as a result of the surge in members' production to over 19m b/d this month.

Proposals under discussion were drawn up by Dr Subroto, the Indonesian Minister of Energy, who was charged on Saturday morning with talking to each delegate individually and devising a formula acceptable to as many as possible.

A majority of nine of the 13 members agreed that a ceiling of 17.9m b/d, compared with the 16m b/d notionally in force since 1984, would be made possible by higher demand and voluntary cuts in production amounting to 500,000 to 700,000 b/d by non-member producers.

A maximum of 17.4m b/d will be set for the third quarter but without any quota system. These levels compare with the 16.3m b/d for the third and 17.3m b/d for the fourth agreed by 10 of the 13 at the last conference in Geneva in April.

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CONTENTS

Egyptians bank on US for help on debt

BY TONY WALKER IN CAIRO

EGYPT and the US are wrestling with a serious debt service problem that if left unresolved could sour relations between the two countries. Egypt faces increasing difficulties meeting its commitments on its foreign debt, said by some international authorities to exceed $35bn (£23bn).

A clutch of Egypt's senior ministers, including a deputy prime minister and minister of finance, was in Washington last week talking to Reagan Administration officials about the debt problem. They secured a US promise to free $110m in aid linked to economic reform, but no decisions on additional help.

Their visit followed directly one by Field Marshal Abdel Halim Abu Ghazala, Egypt's Defence Minister, who urged the US to find a solution to his country's military debt burden which is rapidly becoming unmanageable, except at the expense of its other commitments.

At a time of extreme pressures on the US budget deficit, there is little scope for Washington to help outside the present military and civil aid appropriation to Egypt which amounts to about $2bn annually.

Egypt's debt service commitment to the US in calendar year 1986 is $95.2m. This covers both military and civil debt and represents about 25 per cent of international repayment obligations, which, according to official Egyptian figures, total about $3.25bn a year.

A mandatory congressional requirement cutting off aid if a country falls more than 12 *months behind on its repayments* under the foreign military sales (FMS) programme is adding to pressure on the two sides to resolve the problem. Egypt is persistently one year in arrears on its military debt to the US.

EGYPTIAN DEBT ($m)

Category	Loans outstanding	Debt service
Soft loans	2,513	57.4
Food import assistance	2,159	42.7
Commodity Credit Corp.	61	12.9
Eximbank	173	43.5
Foreign military debt	4,353	543.5
Others	625	84.1
Total	9,884	795.2

Source: US Economic Trends

Washington's dilemma is that Egypt is only one among some 40 countries receiving military *assistance, although with* Israel it accounts for more than half of the $21.4bn disbursed under the FMS programme.

At the end of December 1985 Egypt had received $4.3bn compared with Israel's $8.7bn. Other major recipients include Turkey $1.9bn, Spain $1.6bn and Greece $1.4bn.

Various options to assist Egypt have been studied by US officials, including providing interest rate relief, but there are technical barriers to such a course. FMS assistance is provided through the US Federal Financing Bank at commercial interest rates on the date the credit is drawn.

US officials worry that if it *provided Egypt* with interest rate relief, demands from other debtors for similar treatment would flood in. There is also the domestic problem of the huge US farm debt totalling some $150bn

"That constitutes a real *political problem*," said a US official. "Can you imagine what lowering interest rates to farmers would do to the budget?"

Part of Egypt's difficulty is that it borrowed at very high rates of interest prevailing between 1979-1984. The average interest rate on Egypt's military debt is 12.01 per cent —well above existing rates which are around 8 per cent.

The bleak prospect *for Egypt* is that the military debt peak is still *some* way off. Repayment of principal and interest on FMS assistance rises from $543.5m this year to $704m in 1994 before beginning a slow decline.

US officials recognise that Egypt's financial circumstances are such that unless debt relief is forthcoming serious political problems may arise.

The most likely way around the problem is for more of the annual aid appropriation be converted to cash assistance which would allow Egypt meet its commitments. Such a move, however, would squeeze funds available for investment and commodity support. As a US official said: "There are no easy solutions."

Japanese socialists battle to unseat Nakasone

WHEN JAPANESE voters go to the polls next Sunday, most of them will vote for the Liberal Democratic Party just *as they have done for the past* 30 years, writes Carla Rapoport from Tokyo. The number of seats the LDP wins however will determine whether Prime Minister Yasuhiro Nakasone stays on for another term or loses his job to a party rival.

Mr Nakasone himself is a focus for the campaign by Japan's opposition parties, led *by the Japan Socialist Party* with more than 20 per cent of the seats in the House of Representatives.

The Socialists admit that toppling the LDP in this election is out of the question, but they remain committed to electing a socialist prime minister within the next decade.

Mr Misashi Ishibashi, 62, the JSP chairman, described Mr Nakasone as "militaristic, a liar and no good for Japan," in a speech at the weekend.

He accused Mr Nakasone of sacrificing spending on welfare benefits, education, pensions and local government in favour of increased military spending.

In recent months, the JSP *has toned down its party plat*form by eliminating all Marxist rhetoric. Officially, however, the JSP is still committed to "unarmed neutrality" and to ignoring the existence of South Korea. Nonetheless, the new platform may allow the socialists to form a coalition of some sort with one of the other five opposition parties, or perhaps a *faction of the LDP*.

The JSP currently has 110 of the 511 lower house seats. Mr Ishibashi says that 120 seats this time will be a victory. It takes a long time to become number one in Japan.

Iraq bombs Iranian villages

Iran said Iraqi warplanes yesterday bombed two villages, killing five civilians and wounding 28, after Iraq warned of a new "war of cities" over Iranian missile strikes against its northern oil town of K Kirkuk, Reuter reports from Bahrain.

Tehran Radio said bombs hit Saadi and Abudi villages, *37 miles east of the southern* Gulf war front, and near the town of Shadegan. Victims included women and children.

The bombings followed reported Iranian air strikes on two tankers on Saturday inside the 12-mile territorial limit of the United Arab Emirates (UAE), in what appeared to be Tehran's closest inshore raid so far on the Arab side of the Gulf.

There was no immediate comment from the UAE authorities on the attacks in Dubai anchorage, previously regarded as safe.

Iraqi regime and . . . will the Shadegan area a number of times in recent months, but yesterday's raid followed fresh Iranian declarations it would retaliate for raids on civilian targets.

"The heroic Moslem forces *of Iran will strongly* respond to any criminal act by the Iraqi regime and . . will powerfully defend the civilians," the Iranian News Agency IRNA quoted a war spokesman as saying.

Rothschild supports Israel bank chief in fight to keep job

BY ANDREW WHITLEY IN TEL AVIV

BARON Edmund de Rothschild, head of the French branch of the Rothschild family, has made an unexpected intervention in the acrimonious dispute between the Israeli authorities and the country's top bankers.

The bankers are accused of acting as a cabal in manipulating the local stock market over a period of years to the advantage of their institutions and themselves. The subsequent crash of the stock market, in *October 1983, has had far*-reaching consequences.

In a telegram to Prime Minister Shimon Peres last week, Baron Rothschild, whose family played a prominent role in the founding of the state of Israel, attacked the conclusions of the government-appointed Beijsky inquiry into the bank share scandal. "I am disturbed and shocked by the fact that a temporary commission substituted itself for the permanent judicial authorities of the country," he said.

The Commission's findings and recommendations — including the dismissal of virtually all Israel's top bankers — were published in April. Since then the heads of Bank Leumi le-Israel, Bank Hapoalim, and United Mizrahi Bank have reluctantly agreed to stand down. But Mr Raphael Recanati, chairman of Israel Discount Bank, the IDB, is defiantly refusing to resign.

Backing Mr Recanati, the baron warns that his removal by an external body "would permit great abuse, affect negatively the image of Israel and make foreign investment in Israel even more difficult."

Baron Rothschild defends two other former pillars of Israeli banking, Mr Ernest Japhet and Mr Aharon Meir, who have both resigned amid bitter protests, after being strongly criticised by the Beijsky Commission.

Last week Professor Michael Bruno, the newly appointed Governor of the Bank of Israel, met Mr Recanati and the IDB board in an attempt to persuade him that he had to go.

He was apparently unsuccessful and the Government is under pressure to pass fresh legislation, to strengthen the central bank chief's hand in enforcing Judge Moshe Beijsky's proposals.

The year-long inquiry did not specifically urge criminal proceedings, but it reported detailed flagrant and persistent breaching of banking and stock market regulations by the banks and their chief executives. The Justice Ministry has already said it is to bring criminal charges against Mr Meir, the former head of Mizrahi.

Cabinet postpones decision on Shin Bet inquiry

BY LYNNE RICHARDSON IN TEL AVIV

THE Israeli cabinet averted a looming crisis yesterday over whether to initiate an inquiry into Shin Bet, the internal security service, by deciding to postpone any decision.

Resignation threats by three *left-leaning cabinet ministers* and four no-confidence motions were signs of vociferous opposition to the deal worked out last week by the inner cabinet, whereby Mr Avraham Shalom, the head of the Shin Bet, was to resign and be granted an automatic presidential pardon. Three of his top aides, who retain their posts, were also pardoned.

Last week's deal was an alternative to holding an inquiry into the alleged cover-up and consequent framing of a top army officer, during previous investigations into the beating to death of two Palestinian bus hi-jackers in April 1984.

However, the emphasis of the argument for and against the probe has now become more political, with the resignation threats of the three left-leaning ministers seen by their coalition partners on the right as a blatant ploy to force elections.

A poll would stop the agreed plan for Mr Yitzhak Shamir, of the Likud, to take over the premiership from Labour's Mr Shimon Peres in October.

Having achieved success both in stabilising the economy and bringing most of the Israeli soldiers out of Lebanon, Prime Minister Peres is riding high in the polls but he has ignored frequent calls from some members of his party to dissolve the cabinet and force elections.

The right is prepared to fight any election engineered by the left wing of the coalition government, as Mr Ehud Olmert, of the Likud, indicated yesterday. Warning Labour about its political "gamesmanship," he said: "They had better watch it because they might get elections — and they might regret it."

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OVERSEAS NEWS

Pretoria allows Buthelezi to hold Soweto rally

BY ANTHONY ROBINSON IN JOHANNESBURG

THE South African Government yesterday permitted Chief Mangosuthu Buthelezi, leader of 6m Zulus, to hold a political rally *thinly disguised as a prayer meeting in Soweto's Jabulani stadium. This was in* spite of the blanket ban on political meetings, wide-ranging gags on the media and the arrest of thousands of political opponents, trade union and community leaders.

It was the first time that Chief Buthelezi has addressed a major political rally outside his Kwazulu/Natal power base since November 1984. He used the occasion both to condemn *black on black violence* and highlight the potential importance of the government's offer to create a National Statutory Council chaired by President P. W. Botha.

The council would enable blacks not only to discuss "at the highest levels" proposed legislation but also provide their input to proposals for a new constitution to replace the present tri-camera parliamentary system, flawed by the absence of any kind of parliamentary voice for the 73 per cent black majority.

Later unconfirmed reports from Soweto said five migrant hostel workers were killed after a running battle between Zulu Inkatha supporters and those of other tribes while several buses carrying Inkatha supporters out of the township were stoned as they passed through the streets.

Chief Buthelezi arrived at the stadium by helicopter while several thousand of the estimated 13-15,000 Zulus present were bussed into Soweto

It is not permitted under the media restrictions of the state of emergency to describe the security arrangements provided by the South African and Zulu police.

For Chief Buthelezi the return to Soweto after an 18-month interval during which he has been condemned by radical blacks as "Pretoria's stooge"

He stood before his supporters as the apostle of non-violent change, an opponent of sanctions and supporter of millions of moderate blacks who fear and oppose violence, are desperately clinging to their often lowly jobs at a time of recession and want to see their children educated for better things in a future non-racial South Africa achieved through negotiation not civil war.

But he is too wily a politician to underrate the dangers of being seen to be accorded such preferential treatment from Pretoria at a time when thousands of opponents of the regime are being detained. These include over 900 prominent trade unionists according to a report issued by the labour monitoring group of Witwatersrand university. Over the weekend Mr Zwelokhe Sisulu was detained. Mr Sisulu is editor of the new nation bi-weekly and son of ANC official Mr Walter Sisulu, in jail together with Mr Nelson Mandela and other ANC leaders. Mr Sisulu's arrest—according to his wife by four white men including two whose faces were hidden by balaclavas on Friday night — was formally admitted by Mr Louis le Grange, the Minister of Law and Order on Saturday night, the first detainee to be officially named since the emergency was declared on June 12.

Mr P. W. Botha—called upon to release Mandela

Mr Buthelezi told the attentive and responsive crowd that no one was more angry than he at the humiliation heaped on blacks by decades of apartheid. But he warned against blacks misdirecting their legitimate anger into counter-productive channels of inter-black rivalries and violence.

It is a theme strongly reflected in the official "unrest" reports of the Bureau for Information which reported nine more deaths over the weekend, bringing the official death toll during the emergency to 85, mostly, according to the bureau, "*black on black violence.*"

After rejecting the arguments of those who claim that violence is the only way forward Mr Buthelezi added "blacks now have the bargaining power which will ensure that negotiations will succeed."

Indian GDP forecast to grow at 4% annually

BY ALAIN CASS, ASIA EDITOR

OPPOSITION TO economic reform, shortage of domestic and international finance and lack of adequate infrastructure will hamper growth of the Indian economy for some time to come according to a report published today.

The report, by the Economist Intelligence Unit, forecasts that the Indian gross domestic product will grow at 4 per cent a year over the next five years, a percentage point lower than the 5 per cent forecast by the current Five Year Plan.

The report says strong vested interests in preserving trade barriers and latent nationalism will act as a break on change in areas such as foreign investment and trade.

It forecasts that industrial output will grow by 6 per cent a year, against the 8.3 per cent envisaged by the Government. Infrastructure will rise by 8 per cent, against the plan's more optimistic 12 per cent; and the rate of growth in the agricultural sector will also be lower than the official forecast.

The Indian Prime Minister Rajiv Gandhi's problems in *maintaining the impetus of reform* will be complicated, according to the report, by the need for higher foreign borrowing and India's limited ability to repay its growing foreign debt.

In the long term, however, the report says that, while the targets of the current Five Year Plan are optimistic, the longer term aim for economic development are attainable.

Brandt warns of Peruvian coup danger

FORMER West German Chancellor Willy Brandt, who returned from a visit to Peru last week, has warned that there is an imminent danger of a coup there, Reuter reports from Bonn.

Mr Brandt, the chairman of the Socialist International, told a meeting of the West German Social Democrats (SPD) executive in Munich that left-wing guerrilla violence was helping pave the way for a takeover by forces opposed to Peruvian President Alan Garcia's moves towards democracy and social reform.

Mr Brandt, who is also chairman of the SPD, was in Lima for a meeting of the Socialist International, which took place amid bloody prison riots by left-wing Sendero Luminoso (Shining Path) guerrillas. The revolts were quashed by the military with the loss of at least 156 lives

Leftist guerrillas bombed a police station and three offices of the ruling party overnight at the weekend, police said, as President Garcia accused the Republican Guard of executing over 100 Sendero inmates during the prison riots.

Soviet writers replace leaders

In an apparent shift towards more liberal attitudes in literature in the Soviet Union, the Soviet Writers' Union has replaced its leader of the last 15 years, writes Patrick Cockburn in Moscow.

Mr Georgy Markov, aged 75, was succeeded as first secretary of the union by Mr Vladimir Karpov, the editor of the magazine Novy Mir, at the end of the union's congress which ended on Saturday. Mr Markov was given the ceremonial post of chairman of the union. The change is important because the writers' union, with a membership of 10,000, largely determines what works are published in the Soviet Union. Its influence was extremely conservative during Mr Markov's time in charge.

Italian trade fillip

Italy's trade deficit was halved in the first five months of this year, writes Alan Friedman in Milan. Provisional figures released yesterday show that the deficit for the five months ending May 31 came to L7,093bn (£3.1bn) against L14,516bn in the first five months of 1985. The deficit for May totalled L1,075bn, which is 64 per cent below the deficit recorded in May last year.

Ten die in Sri Lanka

At least 10 people were killed at the weekend in separate clashes between troops and Tamil guerrillas in Sri Lanka in spite of a peace plan offered by President Junius Jayewardene, Reuter reports from Colombo.

French boat seized

Spanish coastguards seized a French boat yesterday fishing off the Basque coast, maritime officials said, Reuter reports from San Sebastian. The vessel Henri, registered in Bayonne, was caught in Spanish waters near the Cape of Higuer, close to a fishing ground that has been the centre of a bitter fishing feud between Spain and France.

Haughey predicts early election

BY HUGH CARNEGY IN DUBLIN

MR CHARLES HAUGHEY, leader of the Irish opposition *Fianna Fail Party, yesterday* stepped up his attack on Dr Garret FitzGerald, the Prime Minister and his Fine Gael-Labour coalition, in the wake of the Government's resounding *defeat in last week's divorce* referendum.

"The political situation is much more unstable now than it was before the referendum with the Government's authority and particularly the Taoiseach's (Prime Minister's) authority very seriously undermined," Mr Haughey said on Irish radio.

He predicted an early general election and pressed his attack by criticising the Government for not taking advantage of *favourable international conditions* to boost the still-faltering economy.

The Government's term officially runs until November 1987, but a number of politicians are *predicting* an election as early as this autumn. *Parliament rises this week for* the summer recess, so the *Government, already in a par*liamentary minority, seems safe until then.

Dr FitzGerald's position as *leader is not under immediate* threat but bitter post-mortems have begun on how a 20-point lead at the start of the referendum campaign turned into a rout in which the divorce proposal was defeated by 63.5 per cent to 36.5 per cent. The Government badly under-*estimated the potency of the* opposition mounted by the *Roman Catholic Church and its* supporters.

Mr Haughey, already well ahead in the opinion polls, has emerged *the main beneficiary of* the referendum having avoided *officially committing himself or* his party on the issue.

The opposition leader has refused to accept that the vote *would make "one iota" of* difference in Northern Ireland, *dismissing concerns expressed* by Dr FitzGerald and Mr John Hume, leader of the north's Social Democratic and Labour Party, that it reinforced partation by underlining the dominance of the Church in the Republic to which northern Protestants so object.

"If there was a 'yes' vote it would have undermined the *last shred of sympathy for* Unionist intransigence outside *Northern Ireland." Mr Hume* said yesterday. Instead the *result has handed the Unionists* a welcome weapon with which to confront the Anglo-Irish agreement, just as they prepare for the emotive annual season of commemorative Protestant marches which go into full swing in the next fortnight.

Both the Irish and British Governments have insisted the *accord will not be affected* by the divorce vote. But, at the least, Dublin's position as champion of minority rights in the north has been undercut by a clear denial of minority rights in the south.

Call for national unity as Yugoslav inflation soars

YUGOSLAVIA'S Communist Party leaders have been *charged with unifying* an increasingly fragmented nation *faced* with soaring inflation, and a $20bn (£13.3bn) debt, **Reuter reports from Belgrade.**

The 165-seat central committee of the Yugoslav party chose a substantially new leadership at the weekend, with only six members keeping their posts in the 23-seat party presidency.

The new party president, Mr Milenko Renovica, from the republic of Bosnia-Hercegovina, *called for greater cohesion* and a crackdown on nationalism *and separatism.*

Officials said the party's con*gress, which ended on Saturday,* had seen some of the fiercest self-criticism in the history of the communist movement. But many congress delegates complained openly that it stopped short of calling to account those responsible for Yugoslavia's economic troubles.

Secret elections to the central committee brought in 50 already established politicians but several new and younger *faces as well.*

Aleksandr Lebl adds from Belgrade: *if the previous* failures to implement decisions adopted by congress are repeated, the four-day meeting may turn out to be less of a turning point than many speakers said.

Observers in Belgrade feel time is running out for the Yugoslav economy and that, *if* stagnation continues, the country will face grave dangers.

The dinar depreciated fast *last week. It fell by about 10* per cent against the dollar, and *is likely to continue its decline* this week.

Meanwhile the commercial banks decided to reduce interest rates for deposits of three to 12 months from 73 to 42 per cent from July 1.

With annual inflation at over 80 per cent this means that instead of a positive real interest rate depositors will get a negative rate of some 40 per cent in real terms.

G5 criticised over exchange rate failures

BY WILLIAM DULLFORCE IN ZURICH

THE VOLATILITY of currency rates has been heightened *rather than reduced since the* Group of Five finance ministers and central bankers acted last September to reduce the value of the dollar.

This increased volatility has been engendered at least partly by unco-ordinated official statements, the failure of the leading industrialised countries to agree on sustainable exchange rates and ad hoc market interventions by monetary authorities, accord*ing to a group of US bank and* university economists.

A more stable exchange rate system calls for clear policy *co-ordination by the industrial* nations and regular, public identification of what they regard as sustainable rates, the group suggests.

The "shadow group of seven" has been formed in New York to present the views of practising private sector experts on international monetary reform. The major New York banks are represented.

Its first pamphlet was distri*buted at the weekend to* a conference in Zurich of senior *economic policy officials* and parliamentarians backed by Sen Bill Bradley and Congressman Jack Kemp, two influential US politicians who have been working for changes to the international monetary system.

The "shadow group of seven" takes its name from the seven *industrial countries*—the US, Japan, West Germany, France and the UK, the Group of Five, and Canada and Italy—which agreed in principle at a summit meeting in Tokyo in May to co-ordinate their economic policies and to devise a set of economic indicators to help them do so.

The New York private group warns that on-again, off-again official concern about exchange rates would be ineffective. Co-ordination would require officials to meet regularly *to* review economic policies

Austrian N-protestors turned back by Bavaria

By Peter Bruce in Bonn

BAVARIAN state authorities *have sparked off a chain of* political rows by closing West German borders to hundreds of Austrians wanting to travel to a rally in Regensberg on Saturday to protest against the building of a nuclear reprocessing plant in Wackersdorf.

Mr Peter Jankowitsch, the Austrian Foreign Minister, called the move "anachronistic" and a "return to the times of closed borders." The Bavarian Free Democrat Party (FDP) has also sharply attacked the *Bavarian Christian Social* (CSU) Government for turning back the Austrians.

Organisers of the Regensburg rally said only four Austrians managed to take part in it. More than 3,000 Austrian doctors and nurses had been expected. Bavarian border *police said they had* turned back only 322 people.

The frontier action is likely to add to the suspicion that Bavaria, under the leadership of Mr Franz Josef Strauss, is prepared to ignore the more delicate wishes of the Bonn Government and to act unilaterally in defending the Wackersdorf project.

Vienna *has* also hinted that it is unhappy at the thought *of another nuclear facility* being built near Austria, but the Bonn government has tried to treat the matter lightly.

The *mounting violence* at anti-nuclear protests, and the likelihood that it will get worse, was made stark on Saturday when police in Bavaria say they defused 40 kilogrammes of explosive found packed around two high tension electricity pylons near the Gundremmingen nuclear power plant north west of Munich. *An anti-nuclear group claimed* responsibility.

Canada unveils plans to boost drug patents

BY BERNARD SIMON IN TORONTO

THE Canadian Government has unveiled long-awaited and controversial proposals to tighten patent protection on prescription medicines.

The proposals, in a draft bill to be introduced after the summer break, will significantly weaken the contentious compulsory licensing rules in force in Canada for the past 17 years.

These rules aim to bring down local medicine prices by requiring multi-national pharmaceutical companies to license so-called "copy-cat" or generic products long before their patent expires. About 125 generic drugs are now on the market.

The compulsory licensing policy has been a big source of friction in commercial relations between Canada and the US and EEC. Besides complaints of inadequate patent protection, brand-name drug manufacturers have complained that low-cost generic drugs made in Canada have been exported to Africa and the Middle East.

If the bill is passed, patent holders' exclusive rights will be extended to between seven and 10 years. Drugs totally developed in Canada will be given full 17 year patent protection. Multi nationals have recently been required to license local generic manufacturers within three or four years of launching new products.

In return for greater patent protection, brand name companies have agreed to increase their research and development spending in Canada from 5 per cent of sales to 8 per cent in 1990, and 10 per cent in 1995.

A Drug Price Review Board will be set up to monitor prescription drug prices.

The Government hopes these safeguards will placate vociferous domestic critics of the proposed system, who fear that greater patent protection for multi national pharmaceutical companies will significantly raise local medicine prices. Ottawa will soften the blow to consumer by providing C$100m (£47.4m) in subsidies to provincial health authorities over the next four years.

● The US International Trade Commission has held in a preliminary decision that Canadian softwood lumber imports are injuring US lumber producers, AP reports from Washington.

The ruling could lead to stiff duties on future Canadian imports. The decision was a victory for a US industry which is seeking duties of up to 27 per cent on Canadian imports.

Cairo seeks extension on nuclear plant bids

By Tony Walker in Cairo

Egypt has asked international consortia-bidding for a much-delayed $1bn nuclear power plant project to extend their bids until December 25.

This is the second extension requested this year and indicates Egypt is still some way from making a decision. Companies were asked in February to re-submit bids by the end of June in what amounted to a last chance to improve their offers for the el Dabba project on the Mediterranean coast, west of Alexandria.

At least one of the three bidders, Kraftwek Union of West Germany, has told Egypt it is prepared to extend its financing proposal, subject to the approval of West Germany's Hermes credit agency.

The other bidders, Westinghouse of the US and Framatome of France, which is heading an Italo-French consortium are expected to follow suit.

Egypt's explanation for the latest delay is that it is awaiting a report from the International Atomic Energy Agency on the Chernobyl disaster. Egypt's financial difficulties have, in any case, put the el Dabba project in doubt.

Oil price hits Soviet earnings

BY PATRICK COCKBURN IN MOSCOW

THE DROP in the value of Soviet oil exports led to a sharp decline in hard currency earnings in the first quarter of the year, according to official figures.

The fall in oil exports to 3.2bn roubles (£2.9bn), 5 per cent down on the same period last year, is worse than it looks because the severe winter depressed earnings in early 1985.

Imports during the first quarter, down 12.5 per cent to 4.4bn roubles, means a trade deficit of 1.25bn roubles. Many Western exporters to the Soviet Union have seen regular orders cut back and expected contracts for big projects cancelled or postponed.

About 60 per cent of the Soviet Union's hard currency earnings come from the sale of crude oil. The country's ability to import is being hit by the drop in other fuel and raw materials prices and the weakness in the dollar, in which most Soviet exports are denominated.

This is likely to put a severe constaint on Soviet imports from the West. The Soviet foreign trade account recorded a surplus of $3.2bn in 1984 but a deficit of $1.7bn in 1985. Borrowings last year were $1.5bn.

Western businessmen in Moscow are waiting to see the fate of big projects in the current five year plan, which was finally passed last week by the Supreme Soviet. Despite many cancellations or delays, companies which have built plant in the USSR before hope to receive contracts to refurbish or expand the production capacity of equipment already installed.

At the same time the new five year plan (1986-90) calls for heavy investment in electronics, machine tools and the oil and gas industries. Mr Nikolai Ryzhov, the Soviet Prime Minister, told the Supreme Soviet last week that only 14 per cent of the output of the Ministry of Machine Tool and Tool Making Industry was up to world standard and only 17 per cent of the output of the Ministry of Instrument Making, Automation Equipment and Control Systems.

Asean pressed on trade barriers

BY CHRIS SHERWELL IN MANILA

THE US and the European Community have urged the six countries of the Association of South East Asian Nations (Asean) to lower their substantial protectionist barriers to deflect restrictive trade pressures in their overseas markets.

The suggestions came during two days of meetings in Manila last week between Asean, which embraces Indonesia, Thailand, Malaysia, the Philippines, Singapore and Brunei, and their six biggest trading partners—the US, Japan, the EEC, Canada, Australia and New Zealand.

Although delivered in a low key manner, the US and EEC reactions to Asean's long-voiced complaints against them were public and pointed.

Mr Claude Cheysson, representing the European Commission, said there was protectionism on both sides of the EEC-Asean trading relations. It would be "fruitful to consider whether your large market is not, at times, unduly protected," he told the Six.

Mr George Shultz, the US Secretary of State, sharply reminded Asean that some of the world's most protectionist practices were used by low-income developing countries.

He cited figures showing that Asean exports to the US had grown by $2.2bn, from about $14bn to more than $16bn, between 1983 and 1986, whereas its exports to the rest of the world had declined by $3.3bn. "I think that tells you where your problem is," he declared.

Figures on EEC-Asean trade show the Six's exports to the Community increased only marginally between 1983 and 1985 and have fallen significantly since 1980 from $9.7bn to $7.6bn.

However, exports to the Six from the EEC, US and Japan—Asean's three biggest trading partners—have all fallen in recent years.

Finnish shipbuilder wins FM 1.2 bn Soviet order

BY OLLI VIRTANEN IN HELSINKI

A FINNISH shipping group has won a FM 1.2bn (£153.6m) shipping order from the Soviet Union. The order coincides with talks between Finland and the Soviet Union about the trade imbalance which is now running heavily in Finland's favour.

Rauma-Repola's order for three floating crayfish and fish processing vessels is the biggest the company has won. It will keep its yard at Rauma fully employed until 1990.

The deal was signed on Friday to coincide with a visit to Finland by the Soviet Foreign Trade Minister Mr Boris Aristov. He met senior Finnish officials in a bid to correct the growing trade imbalance.

The two agreed to incease Soviet exports to the tune of $330m a year between 1987 and 1990. The additional imports to Finland will consist of coal, petrochemicals, minerals, food and motor cars, and include 1m tonnes of crude oil a year which the Finnish state oil company, Neste, will trade on international markets.

Under the barter trade agreement the surplus should not exceed FM 2bn either way. Finland, however, will probably run a surplus of FM 4bn by the end of this year.

World Economic Indicators

TRADE STATISTICS

		May '86	April '86	March '86	May '85
UK (£bn)	Exports	5.871	6.038	5.733	6.803
	Imports	6.537	6.303	6.871	6.551
	Balance	−0.666	−0.265	−0.338	+0.252
		April '86	March '86	Feb. '86	April '85
US ($bn)	Exports	17.965	18.913	17.735	17.973
	Imports	30.036	33.435	30.225	29.907
	Balance	−12.071	−14.521	−12.490	−11.934
Japan ($bn)	Exports	17.737	17.647	15.084	14.871
	Imports	10.909	10.997	11.156	10.584
	Balance	+6.828	+6.644	+3.928	+4.287
W. Germany (DM bn)	Exports	45.86	44.05	44.41	44.32
	Imports	36.72	35.50	36.86	38.56
	Balance	+9.14	+8.55	+7.55	+5.76
France (FFr bn)	Exports	71.40	69.10	73.87	77.60
	Imports	76.30	71.70	73.79	81.80
	Balance	−4.80	−2.60	+0.08	−4.20

SHIPPING REPORT

Tanker market weakens slightly as Opec meets

FINANCIAL TIMES REPORTER

THE tanker market this week was somewhat under the cloud of the meeting in Yugoslavia, of the Organisation of Petroleum Exporting Countries, with oil companies waiting for the somewhat unlikely event of a firm outcome which would move the oil market. But price levels, while a little weaker, are still described as fairly firm.

The bulk carrier market has seen another week of record lows, with the Gulf/Continental grain rate collapsing to $4.50. Rates in the Pacific are still stronger, however.

As might be expected, the divergence between the fortunes of the two markets continues to be reflected in the sale and purchase market. One tanker sale reported is a 79,000 tonner, built in 1967, which was expected to be sold for scrap but instead went to Greek buyers for $2.2m.

In bulk carriers, by contrast, a 68,000 tonner (1978) going to other Greek buyers for $3.7m (£2.45m) had its price renegotiated to $3.3m.

UK NEWS

Land Rover unveils new forward control vehicle

BY JOHN GRIFFITHS IN LONDON

LAND ROVER is planning to re-enter the market for forward-control utility and all-terrain vehicles, from which it has been absent for eight years.

A fully developed prototype has been unveiled at the British Army Equipment Exhibition, which opened at Aldershot, west of London, this week.

But unlike previous forward control vehicle production, which took place exclusively for the UK Ministry of Defence between 1967 and 1978, Land Rover intends to seek both military and civilian customers for its latest vehicle.

In a forward control vehicle, the driver and controls are placed slightly forward of the engine/transmission unit, which is mounted low down in the chassis close to the front wheels.

The company would give no forecasts of potential production or sales. A version suitable for civilian applications is expected to be available for sale in about a year. However, the first orders for military versions may be announced much sooner.

Land Rover sees the two-tonne payload vehicle as filling a variety of military roles such as communication unit, personnel carrier or weapons platform.

Civilian applications, it suggests, could include airport firetenders, cross-country ambulances, breakdown trucks and mobile workshops for public utilities. As with the military versions, the variations could be met by building a variety of bodies on the basic Land Rover chassis cab.

Investment in the vehicle, which has been under development for the past two years, is described by the company as low, because it uses mainly existing Land Rover components.

The notable exception is the cab, which is of plastic composite panels bonded to a tubular steel and aluminium frame, and which has been produced by Motor Panels (Coventry), the specialist vehicle design and production company also responsible for developing the C40 cab range for Leyland Trucks.

Land Rover is refusing to comment on potential market size for the new vehicle, which will come in aluminium pick-up and dropside body versions as well as chassis cab units.

SIB plans to protect investors' money prompt wide hostility

Clive Wolman looks at the response from stockbrokers and others to the SIB's draft rules on protecting investment clients' money

STOCKBROKERS have been mounting a strong lobby against the draft rules of the Securities and Investments Board (SIB) which aim to protect the money of investment clients by ensuring it is segregated from the funds of investment firms.

The client money proposals of SIB, the nascent investor protection agency set up under the provisions of the Financial Services Bill, have become among the most controversial of all its draft rules. Comments on the proposals, which have to be submitted by today, indicate hostility from a wide range of industries.

The proposals would require all authorised investment firms to keep their clients' money in trust accounts separated from their own money and to ensure that it is withdrawn only in response to instructions from the clients.

If effective, such segregation would protect clients' money even if the firm becomes insolvent. In most of the investment scandals over the last five years, clients' money has been mingled with the funds of the investment firm.

The stock exchange has argued, however, that the SIB proposals will do nothing to protect clients against fraudsters. They will still have access to their clients' segregated accounts and be able to use their money for illegitimate purposes.

The banks, in their comments on the draft rules, have asked SIB to be granted immunity so that they should not be held responsible if money is removed improperly from a trust account in one of their branches. SIB is resisting this request.

However, the stock exchange believes that in most cases where an investor finds his money improperly removed from a trust account the law will grant him no redress against anyone except the investment firm.

It argues that the best form of protection for clients, when a stockbroker becomes insolvent, is through its compensation fund. This has ensured that no stock exchange investor has ever lost money through the insolvency of a member firm over the last 30 years although they may have had to wait for up to three months to retrieve their money.

The draft rules will impose an intolerable administrative burden on its members, the stock exchange says. Segregated accounts might be suitable for solicitors and estate agents, where a client's money is used typically for only one large transaction, or for commodity brokers, who require cash settlements infrequently.

But stockbrokers and dealers in securities have to make a large number of complex transactions which require the transfer of client money.

Shares that have been bought by their clients have to be paid for at the end of the two-week account period. Money has to be transferred when clients subscribe for rights issues and meet calls. At the same time, money is being received continually on behalf of clients from the sale of shares and the payment of dividends.

At present clients who buy shares often fail to pay their stockbrokers by the end of the account period. In these situations the payment is usually made out of the general pool of money belonging to both clients and the firm.

If each client has a separate account, one likely consequence, say some brokers, is that they will be much stricter in insisting that the investor has adequate funds in his account before he buys shares.

Stockbrokers acknowledge that computerisation should alleviate the administrative burden of disentangling the ebb and flow of money into client accounts.

The draft rules would give a competitive advantage to the brokers that are subsidiaries of the clearing banks which have easy access to computerised account systems.

Dixons' Woolworth bid reaches lobbying climax

BY CHARLES BATCHELOR IN LONDON

DIXONS, the electrical retailing group, and Woolworth Holdings, the target of its £1.8bn takeover bid, today begin the final three days of intense lobbying of Woolworth shareholders to win them to their respective causes.

Over the weekend the argument between the two sides centred on the degree of institutional support for the Dixons bid, which closes at 1pm on Wednesday after a hard-fought 12-week campaign.

S. G. Warburg, which is advising Dixons, said the bid had broad support from other institutions and not just from Mercury Warburg Investment Management, which has said it will vote its 13.5 per cent holding in Dixons' favour.

Woolworth countered that Dixons was attempting to confuse the issue and said it believed that Dixons' backing came largely, if not exclusively, from Mercury Warburg.

Although it is unusual for institutions to declare their hand before the closing minutes of a takeover bid, Woolworth has already had promises of support from Robert Fleming Investment Management, which has about 10 per cent, and Charterhouse Group, which has 3.1 per cent.

Dixons shares were 336p at Friday's stock market close.

Men and Matters, Page 16

UK NEWS

New forum urged for education issues

BY PETER RIDDELL, POLITICAL EDITOR

AN EDUCATION council should be established to provide a forum for national discussion of educational *issues and for creating* a partnership in education policy-making, Mr Giles Radice, Labour's spokesman on education, said yesterday.

In the latest of a series of speeches on education Mr Radice said the council's membership would be drawn from representatives of parents' organisations, teachers, local authorities, trade union and employer organisations and *academics*.

He told the annual meeting of the Socialist Education Association that "one of the first jobs of the new council would be to draw up guidelines on the levels of provision of books, equipment and teachers which it regarded as a necessary minimum for ensuring each pupil has access to a good education.

The council's guidelines, would, he said, provide a invaluable yardstick in judging the performance of local education authorities and "provide an incentive for the laggards to improve their performance."

Its remit *would include giving* advice on the curriculum and examinations.

Mr Radice urged a crash programme of increasing resources for books, materials and equipment as well as expanded investment in buildings, together with "a new and lasting pay deal" for teachers linked to a new appraisal and training system.

Vocational training for business supported

By Hazel Duffy

STRONG SUPPORT for the idea that the professions should be included in a national scheme of vocational qualifications has come from seven professional bodies associated with the business sector.

The heads of the organisations have written to Lord Young, Employment Secretary, who is expected this week to publish a White Paper (policy document) on education and training, expressing their desire to be involved.

They are: the Institute of Administrative Management; the Institution of Industrial Managers; the British Institute of Management; the Institute of Personnel Management; the Institute of Marketing; the Institute of Purchasing & Supply, and the Institute of Chartered Secretaries & Administrators.

Their support contrasts with the Engineering Council which has told Lord Young that it does not want to be involved.

Other professional bodies, including those for doctors, dentists, solicitors, barristers and accountants, have not yet formally agreed their position although some have already expressed initial coolness towards the idea.

The Review group of Vocational Qualifications recommended to Lord Young earlier this year that there should be five levels of qualifications, the first comprising qualifications awarded to those on schemes run by the Manpower Services Commission, which administers the Government's training and jobs policy, up to the fifth level which would encompass professional qualifications.

The seven supporting professions wrote: "We believe that the future of our professions is inextricably linked with the success of commerce and industry in the UK and that we have a major interest in the development of vocational training and education in this country at all levels. We want to be at the centre of that development and not outside it."

They acknowledged that, left to themselves, even the most progressive among them would not achieve the necessary reforms quickly.

"We appreciate that there is a very real need for a central focus for this activity, a reference point for standards and, above all, for strong leadership."

Airline offers gifts and lower fares

By Mark Meredith

LOWER FARES and offers of cut-glass crystal for frequent travellers go into effect today on British Midland Airways domestic routes to London's Heathrow Airport.

Mr Colin Roberts, sales and marketing director, British Midland, said that cheaper fuel prices were partly behind a revision of the rules covering the airline's fares.

A day return ticket is to be extended to three days with a fare of £119 on Anglo-Scottish routes to and from Glasgow or Edinburgh.

This is £13 lower than British Midland's own fare, and £19 cheaper than British Airways, its main competitor on the routes, Mr Roberts said. There are also to be savings on flights from Teesside, Belfast and Leeds airports.

Restrictions on changing reservations on off-peak flights have been lifted and reservations may now be changed on tickets booked in advance.

The off-peak fare of £43 on British Midland is now the cheapest flight between Glasgow and Edinburgh and Heathrow.

The airline has also introduced offers of lead crystal glassware to frequent travellers, who may receive a glass for every eight flights.

Steel unions to fight suspension

By Helen Hague

STEEL UNION leaders have launched a campaign of protest over the suspension of a union official from his post as a British Steel Corporation (BSC) worker-director after his involvement in an official strike earlier this year.

Mr John Allen, an Iron and Steel Trades Confederation (ISTC) branch secretary at Clydesdale plant in Scotland, part of BSC's tubes division, played an active part in the two-month-long dispute, which ended in April, and was later stripped of his worker directorship.

The ISTC claims this was because of his activities during the strike.

The Trades Union Congress's steels committee has written to Mr Bob Scholey, the corporation's chairman, demanding Mr Allen's reinstatement to the post he had held since 1976.

The ISTC's annual conference, held in Jersey last week, backed a call for a full review of the worker-director scheme, set up when the industry was nationalised in 1967.

BSC refused to comment on the case.

UK NEWS

Labour pledge on health services

By Peter Riddell, Political Editor

A LABOUR GOVERNMENT would increase spending on health services by up to £500m a year, Mr Michael Meacher, the Labour's spokesman on social services, said yesterday.

On TV-AM's "Jonathan Dimbleby on Sunday programme", Mr Meacher said Labour would increase health spending in real terms by 3 per cent a year. "What the Tories have down for defence we will do for the health services," he said.

There would be "a positive increase in spending on health services of up to half a billion pounds a year".

Mr Meacher went on to argue that, even taking account of both the faster increase in medical costs than retail prices generally and the rising number of elderly people, there would still be "a considerable amount left over for extra expenditure on services."

Later in the same programme Mr Norman Fowler, the Social Services Secretary, said Mr Meacher's pledge was very similar to what the Tories had been doing since 1979 in terms of overall spending.

Mr Fowler said he hoped that over the next few months the Government would be doing a number of things aimed at reducing not just waiting lists but waiting time as well.

Chemical output rises 4.4%

By Tony Jackson

OUTPUT by the UK chemical industry rose 4.4 per cent last year, outstripping the 3.1 per cent rise in manufacturing industry as a whole. The increase also outpaced the rise in worldwide output of chemicals of 3.5 per cent.

However, the rise was concentrated in the first half of the year, with output falling in the second half, according to Government figures. The downward trend has continued this year, with first quarter output 4.1 per cent lower than in the corresponding period last year.

Institute of Directors urges 30% reduction in public spending

BY MICHAEL PROWSE

PUBLIC SPENDING should be cut by nearly 30 per cent over the next decade, says the Institute of Directors in a report out today. It says the objective of expenditure cuts totalling nearly £50bn in today's prices would be to turn Britain into a tax haven.

The cuts in public spending, which would involve a progressive run-down of state health and education services, would finance the abolition of all taxes on capital and the introduction of a uniform 10 per cent rate of income, corporation and value added tax.

Big reductions in taxation are both possible and desirable, says the institute, because "most of the functions of government are ultimately dispensable and would be performed more efficiently and economically in the private sector."

One of the principles underlying its programme for tax reduction is called the "unimportance of equality."

The institute says the state should protect people from absolute poverty but should not use the tax system as a tool to reduce income and wealth inequalities. It thus favours the abolition of higher rates of income tax.

The institute opposes most of the tax reform proposals put forward by other groups. For example, it regards the "expenditure tax" advocated by the Meade Committee in 1978 as "impractical and unrealistic."

It also argues that indexation of the tax base against inflation is unnecessary and undesirable and that mortgage interest relief is a sensible tax concession – interest payments, it says, should be more generally tax-deductible.

Tax havens provide the ideal model for a tax system, according to the institute. Britain, instead of regarding them as a threat, should seek to emulate them.

The Direction of Tax Reform. Institute of Directors, 116 Pall Mall. London SW1Y 5ED. £2.95

Forecaster expected to suffer funds cut

BY GEORGE GRAHAM

THE Government-funded Economic and Social Research Council (ESRC) is on the point of cutting its grant to one of the leading monetarist economic forecasters.

City University Business School (Cubs) is expected to suffer a cut in funding for its supply side model of the UK economy, although Prof Michael Beenstock, who heads the Cubs team, will continue to receive finance for his research activities. The Cambridge Growth Project is also expected to have its funding cut.

Provisional allocations for the next four years of grants have already been made, and the decisions will be finalised at a meeting in two weeks time before going to the full ESRC on July 18.

The other major marcro-economic models – the two large models run by the London Business School and the National Institute of Economic and Social Research and the smaller Liverpool University model – are all expected to continue to receive ESRC funding at close to their current levels.

The different models adopt divergent policy stances, and the allocation of ESRC funding can raise political hackles. The last grants round in 1982 aroused controversy when the neo-Keynesian Cambridge team's grant was cut in favour of the two more monetarist teams at Liverpool and Cubs.

The National Institute's is the oldest established models, with a broadly Keynesian stance, although it now incorporates some of the "rational expectations" theory pioneered by Prof Patrick Minford at Liverpool.

London Business School, whose team is headed by Professor Alan Budd, also now incorporates rational expectations, and is particularly detailed in its modelling of the financial side of the economy.

The differences in the models can produce widely varied economic forecasts. The National Institute, for example, is the most pessimistic on the prospects for the UK economy, forecasting growth of 1.9 per cent this year and 1.7 per cent in 1987.

While London Business School has revised its forecast for 1986 growth down to 2 per cent, its projection for 1987 is a more optimistic 3.2 per cent. Liverpool, meanwhile, forecasts 3.5 per cent growth this year falling to 3.1 per cent in 1987.

The ESRC also makes a range of other grants for research, besides those for full scale macro-economic modelling.

Union attacks BR warning on dismissals

By Philip Bassett, Labour Editor

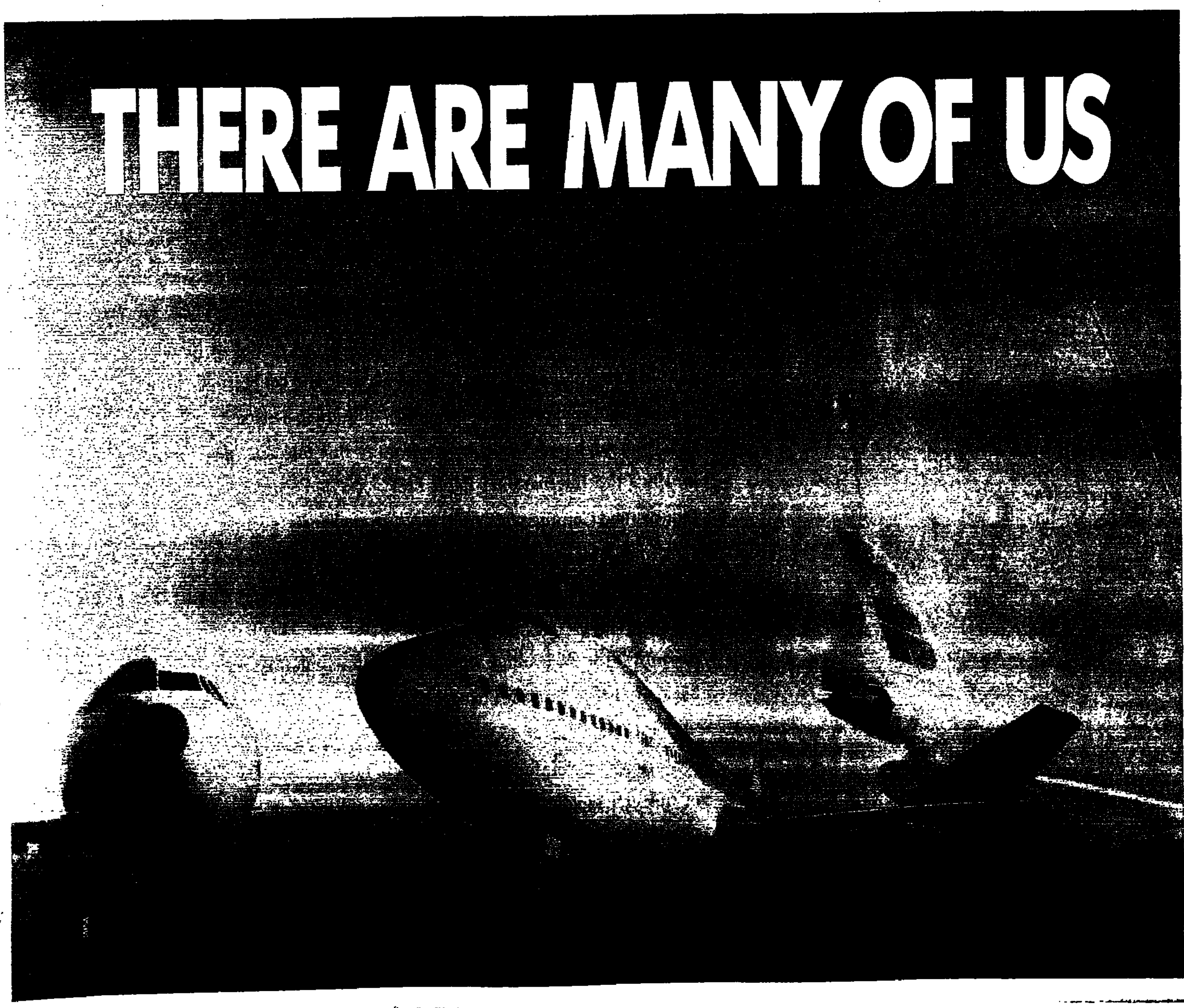
LEADERS OF the National Union of Railwaymen (NUR) last night dismissed as "impracticable and unnecessary" British Rail's warning that workshop staff who go on strike if a ballot opening today votes for action might be dismissed.

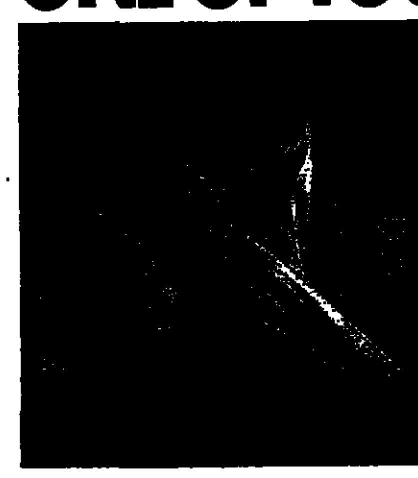
Mr Jimmy Knapp, NUR general secretary, said the position was different to that at Mr Rupert Murdoch's News International Wapping, east London plant. "There is no way you can sack 40,000 workers. There is no work force recruited in secret to replace them."

He forecast that if any workshop employees were dismissed on the scale which the BR board seemed to be indicating, the railways would "grind to a halt" within 48 hours.

Speaking on the eve both of the ballot and of the opening of the NUR's annual conference in Weston-Super-Mare, Mr Knapp urged his members to call BR's "bluff".

Privately, though, many NUR leaders accept that the likelihood of obtaining a clear mandate for action from the ballot will be finely balanced, although they are prepared to continue with a lower key campaign if the ballot result, deemed sometime next week, goes against taking any action.





UK NEWS

Woolworth problems 'unlikely to be solved'

By David Churchill, Consumer Affairs Correspondent

THE PROBLEMS faced by the Woolworth stores chain are unlikely to be solved by either Dixons – which is bidding £1.8bn for the company – or the present Woolworth management, says a retail report published today.

The report, by the Verdict market research company, is based on detailed forecasts for various retail sectors up to the end of the decade.

Verdict says it "remains unconvinced that Dixons could provide all the answers to Woolworth's problems nor, for that matter, that any company can."

It suggests that both Woolworth and rival chain Littlewoods have "failed to find the right formula for success in the modern retail climate and unexciting growth is expected as a result."

The report believes that the outlook for retailing is bright up to the end of the decade. Verdict forecasts that between 1985 and 1990, retail sales volume will increase by 19 per cent. Sales value will increase from £87bn last year to £131bn in 1990.

The report also suggests that retailing is beginning to account for a larger share of consumer spending than in previous years.

"There has recently been a renewed release of energy in retailing," the report comments. "There are numerous examples of the resulting activity, many of which go to show that retailing businesses can be in charge of their own destiny and not simply at the mercy of outside economic forces."

The report suggests that not every part of the retail trade will prosper from the forecast buoyancy in spending in the shops.

The most successful sectors will be, in Verdict's opinion, do-it-yourself retailers, electrical goods outlets, drugstores, garden centres and grocers.

Among the successful companies over the next five years, Verdict identifies Burton, Next, MFI, Wickes, Dixons (before taking Woolworth into account), Sainsbury, Tesco, Kwik Save, Safeway, Harris Queensway, Texas and Marks and Spencer.

Verdict on retailing to 1990, published by Verdict research, 54, Britton Street, London EC1, price £650.

Kinnock support for coal-based power

BY PETER RIDDELL, POLITICAL EDITOR

ANY ADDITIONAL power stations ordered by a future Labour Government would be coal-fired, Mr Neil Kinnock, the Labour leader, argues this morning in a statement of the party's post-Chernobyl energy policy.

In an article in New Socialist magazine, Mr Kinnock pledges that Labour would "restore British coal as the prime source of British electricity supply."

However, the Labour leader does not promise the early end of all civil nuclear power generation in Britain.

This has been proposed by prominent members of Labour's hard-left such as Mr Tony Benn and Mr Eric Heffer who intend to make the issue a major one at the party conference in three months' time.

Instead, Mr Kinnock proposes to accelerate the safety reviews of the older Magnox power stations and says Labour will close those that can be shown to have reached the end of their useful life.

Labour would not proceed with either a fast-breeder reactor or the Dounreay reprocessing plant and would also carry out a "rigorous economic appraisal" of the Thorp reprocessing plant now being built at Sellafield.

However, Mr Kinnock argues that Sellafield would have to continue in operation because it plays an essential role in handling, storing and disposing of large volumes of nuclear waste. And such waste would be increased by Labour's policies of scrapping nuclear warheads and closing nuclear facilities and power stations, he says.

Sterling 'must fall' to maintain growth

BY WALTER ELLIS

STERLING must fall in value over the next few years if the UK is to avoid a deficit on its current account and maintain economic growth, according to the monthly banking review of the American Express Company.

The alternative would be "continuing high interest rates with a high exchange rate and low inflation, but slow growth and further rises in unemployment."

The US banking and credit card corporation asks whether the UK can now ride continuing economic expansion based on a steadily declining currency without inflation picking up excessively.

The answer, it believes, may lie in the extent to which structural changes, especially in the labour markets, have been achieved.

"If, despite high unemployment and these structural changes, real wages continue to grow strongly, then there is a risk that the fall in sterling required will bring renewed inflation."

American Express sees indications that economic policy will continue to be relaxed, albeit cautiously, over the next two years.

"With an election approaching and unemployment clearly a major election issue this trend seems inevitable.

Fiscal policy will be effectively relaxed by increasing asset sales and by actual spending reaching the top end of targets."

"The Government would clearly like gradually to lower interest rates provided there is no risk of a collapse in sterling. The environment for achieving this will be favourable if oil prices and world inflation continue low."

"A further decline in the dollar against European currencies would also make this objective easier."

American Express notes that if the Government has been successful in its efforts to reform structurally the UK economy, there should be no need to keep inflation as its central policy concern.

Efforts could be made instead to bring down the level of unemployment.

Conversely, if the reforms have not gone deep enough, then a switch to greater stimulus – which American Express considers increasingly likely – would cause inflation to rebound.

Rise in growth of large stores

By Our Consumer Affairs Correspondent

THE GROWTH rate of new superstores and hypermarkets increased sharply last year, according to figures from the Unit for Retail Planning, a private research company.

Some 29 superstores – stores with at least 2,500 sq metres of trading space – were opened as well as one hypermarket (defined as having 5,000 sq metres or more of selling space).

This was the largest number of stores to open in any one year since 1981 and is only two fewer than the peak of store openings reached in 1978.

Asda, part of the Asda/MFI group, is the main large store operator according to the Unit, with 82 superstores and four hypermarkets.

Tesco is in second place with 69 superstores and 11 hypermarkets, although with 16 stores with planning permission it is likely to catch up with Asda over the next few years. Asda has 11 stores with planning permission.

The unit points out that the J. Sainsbury chain has shown the most rapid superstore growth in recent years. From only nine superstores at the beginning of 1984, Sainsbury's had some 24 open at the beginning of this year with a further 17 in the pipeline.

The growth in the number of hypermarkets is again showing an increase after a decline in the early 1980s, the unit reports. At the beginning of this year there were six hypermarkets with planning permission, compared with two at the same time a year previously.

UK hypermarkets and superstores, published by the Unit for Retail Planning, 6-10, Bridge Street, Reading RG1 2LU, £33.

SUPERSTORES AND HYPERMARKETS

Retailer	Total	Planned
1. Asda	86	11
2. Tesco	80	16
3. Co-ops	45	43
4. Fine Fare	37	2
5. Sainsbury	24	17
6. Morrisons	16	1
7. Carrefour	10	4
8. Hillards	8	1
9. Presto	8	0
10. SavaCentre	6	1

Source: Unit for Retail Planning

INSURANCE

Tackling the US liability crisis

BY JOHN MOORE

THE LLOYD'S insurance community entertained its biggest producers of business — the US insurance brokers — in its new building in Lime Street last week. For most of the chief executives of the big US broking companies, it was the first time they had seen the new surroundings of one of the most important markets with which they do business.

The social occasion was overshadowed by the deeper concerns of the US broking community. In London last week, Mr John Bogardus, chairman of Alexander and Alexander Services of the US, one of the world's largest insurance brokers, felt that the international insurance industry was "shooting itself in the foot" over the way it was dealing with the crisis in the liability insurance market.

Faced with large losses over several years, underwriters have raised insurance rates to prohibitive levels for the clients of insurance brokers, and in many cases have withdrawn from underwriting liability business. The consequences have created serious disruption in the US business and commercial community.

Mr Bogardus instances that in the US there is only one company that will manufacture football helmets, whereas there were 14 two years ago. "That is because of the liability problem," said Mr Bogardus.

Compaines in the US, fearful of growing legal action by customers and former employees, the lack of insurance protection, and the high cost of court awards, have decided in some cases that it is best to end their operations or merge with stronger corporations.

The US insurance broking community is trying to respond to the crisis among clients by devising a range of funding schemes. Mr Bogardus's own company is formulating fresh funding arrangements for companies which cannot purchase liability insurance in conventional insurance markets.

These funding arrangements may take the form of a risk-pooling arrangements between some Alexander & Alexander clients. Mr Bogardus feels that these arrangements may not necessarily be temporary and argues that important business may be lost to the insurance industry.

"I am not sanguine that this business will return to the insurance industry given that these companies are now making a 10-year commitment in some of their arrangements," he argues.

Therefore, because the insurance industry has not responded and adopted a flexible approach in the underwriting arrangements of liability business, it had not served itself well, he claims.

At Marsh & McLellan of the US, the world's largest insurance broker, and a keen competitor of Alexander & Alexander, the attitude to the liability problem is robust.

"It provides the brokers with tremendous oportunities," said chairman Mr Frank Tasco last week.

Not only were the brokers gaining from an increase in liability insurance premium rates — because their commissions are paid as a percentage of premiums — but it alowed them considerable scope for product design.

Marsh & McLellan has responded to the liability crisis in two main ways. Most importantly, it has created additional capacity for large corporations to seek protection.

Last year, Marsh & McLellan organised 34 large corporations, including IBM and Dow Chemical, in setting up an insurance company offering each policyholder $100m (£65.4m) in cover against catastrophic losses of more than $100m.

The scheme is called the American Casualty Excess Insurance Company (ACE), and operates out of Bermuda and the Cayman Islands. The new concern has capital and premiums of $400m.

Marsh & McLellan has formed another offshore company, XL Insurance. This is effectively a syndicate put together by another large US broker, Johnson & Higgins, and Marsh of available, but cautious, underwriting capacity. Groups such as Aetna Life & Casualty have taken significant positions in the syndicate.

The risks are dispersed across the participants in the syndicate, which reduces their losses and contains legal costs.

In the insurance industry there has been speculation that the crisis in the liability market could lead to a revival of the "captive" insurance market, in which industrial companies created their own in-house insurance groups to provide for their own corporate liabilities. There has been a severe contraction in the activities of captive insurance groups following disastrous underwriting results from their participation in non-parent company insurance business.

Yet the revival in the captive insurance movement could be some way off. "The larger companies are going into group schemes," says Mr Bogardus, "rather than insurance arrangements."

It is the lack of reinsurance protection in the liability market, which was an important prop to the operation of the captive movement's activities, which could curb the captive's revival.

Mr Bogardus says: "Everyone is struggling to find an answer and find the best of what is available. The brokers have done all they can with the insurance companies.

"Now they are exploring the alternative funding possibilities."

APPOINTMENTS

New senior partner at Peat Marwick

Mr Jim Butler becomes senior partner of PEAT MARWICK tomorrow. He takes over from Sir John Grenside, who has occupied the post since 1977, and who retires on September 30. Mr Butler joined Peat Marwick as an articled clerk in 1952. He was admitted to the partnership in 1967. He was partner in charge of the London region of Peat Marwick for five years before being appointed deputy senior partner in October 1985. His professional activities have included a post as adviser to the Treasury and Civil Service Select Committee from 1980 to 1982, and membership of the Serpell Committee, which was appointed by the Government to review the finances of British Rail.

★

I. J. DEWHIRST HOLDINGS has appointed Mr Barry J. Albers as a director. His prime responsibilities will be in commercial activities.

★

CONTINENTAL INSURANCE (UK) has appointed Mr Michael Lamb as director and general manager. He was UK operations manager.

★

Dr E. J. (Ted) Walters has been appointed president of BP VENEZUELA from August 1. He is also appointed BP group representative in Venezuela, Colombia, Ecuador, Peru and the Caribbean. Dr Walters succeeds Mr J. P. (Tim) Odone, who will join the board of BP Venezuela in a non-executive capacity following his retirement at the end of 1986. Dr Walters is manager, projects, at BP Coal, London.

★

STC DEFENCE SYSTEMS has made three senior appointments. Mr Dennis Head, formerly director of operations of Short Brothers in Belfast, and Mr Alan Higgs, formerly sales director of Laser Engineering (Development) have both joined the company—Mr Head as divisional director (Northern Ireland) and Mr Higgs as marketing director (Northern Ireland). Mr Ian Harrison becomes US market development manager. He was previously US programmes manager.

★

TURNER & NEWALL has appointed Mr Jonathan Hill as a director of its subsidiary TBA Industrial Products from July 1. He will also be general manager of TBA's sealing materials division, of which he is currently marketing manager.

★

HARVEYS OF BRISTOL has appointed Mr Bryan de Plessis as UK sales and marketing director. He was marketing manager for Gillette UK.

★

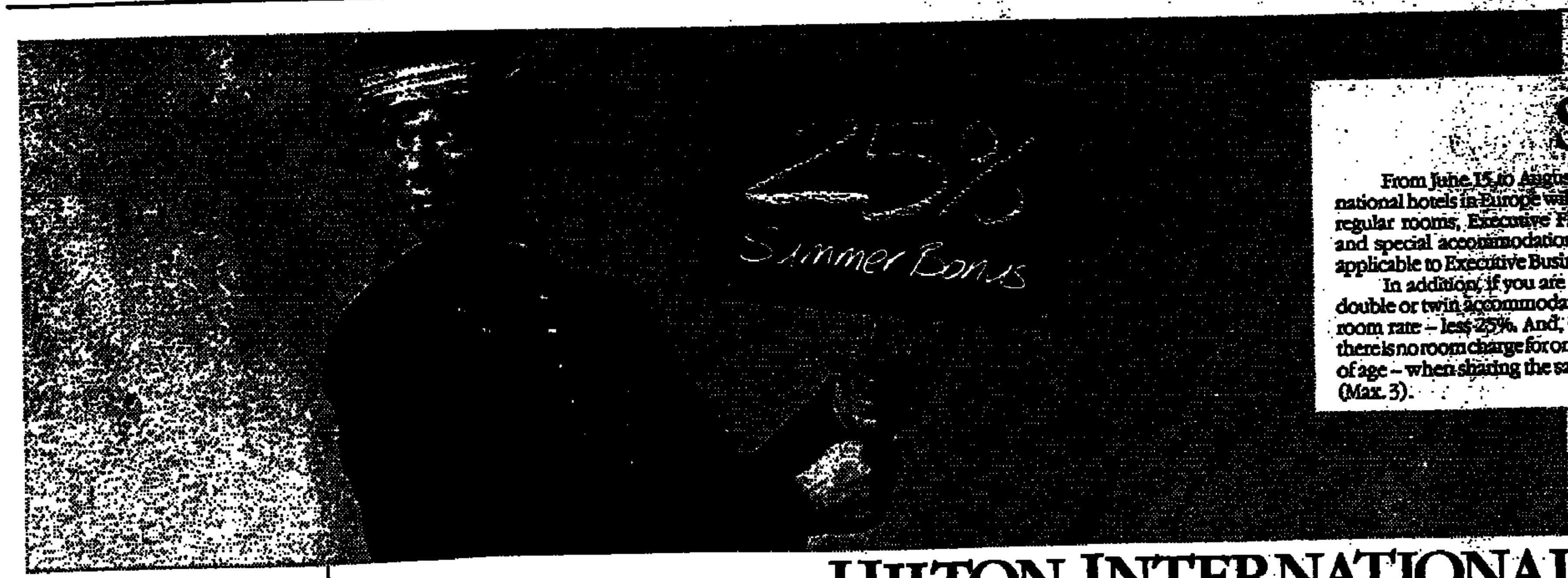
LLOYDS MERCHANT BANK has expanded its syndicate and primary market desk under Mr John Mitchell, head of capital markets. Mr John Henderson, senior assistant director, is now responsible for new issue syndication and for the day to day management of primary market activities, with Ms Sandra Curtis, assistant director, assisting specifically on sterling issues. Mr Mike Lawrence, senior assistant director, will continue on the syndicate desk, and will co-ordinate Lloyds Merchant Bank's new issue marketing and syndication functions.

★

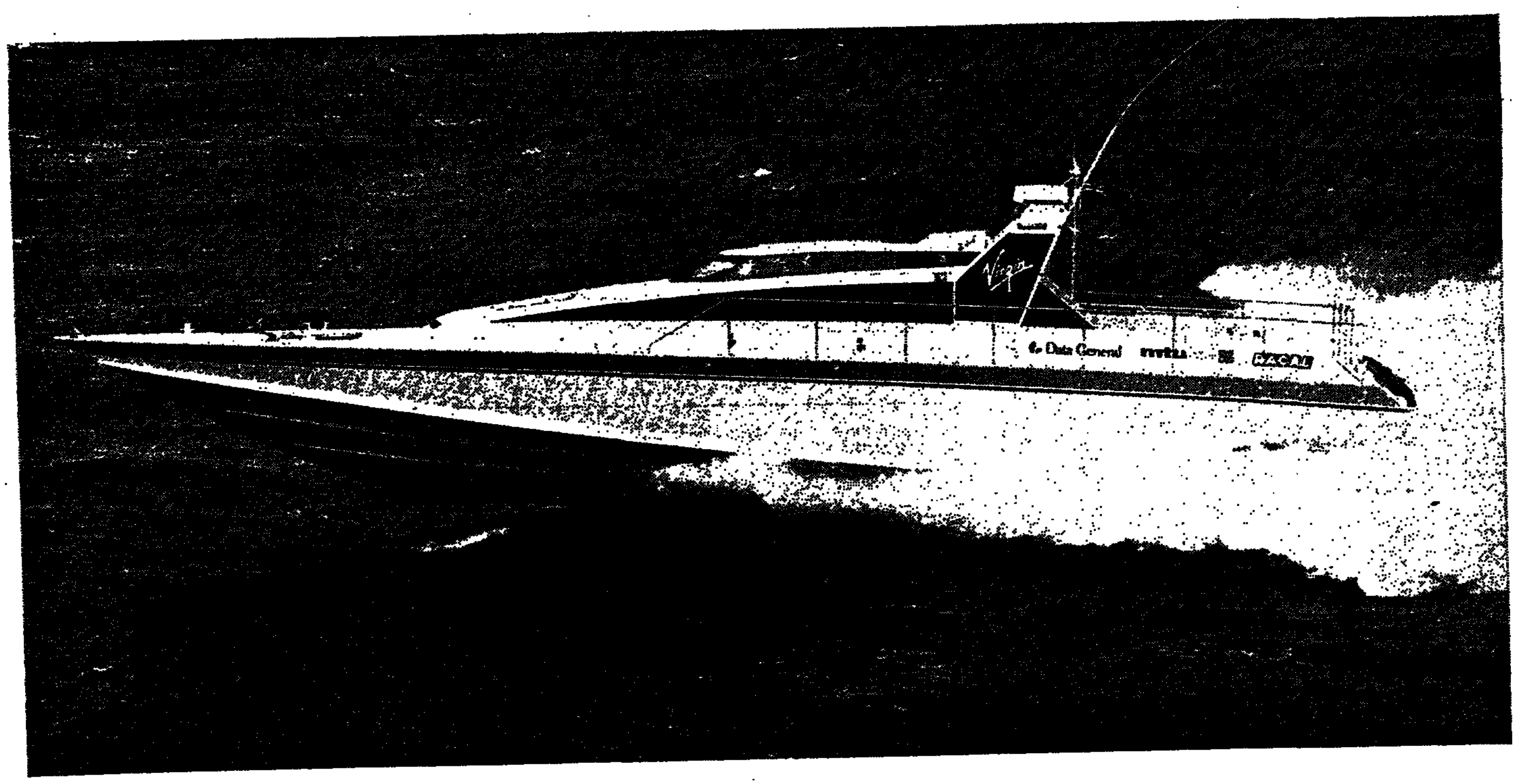
Mr Christopher Strickland has been appointed to the board of GREYCOAT GROUP. He is responsible for the group's construction activities.

★

Mr Iain W. St C. Scott has been appointed divisional general manager, accounting and finance, of the BANK OF SCOTLAND. He takes over from Mr Robert Smith who has retired. Mr Scott was previously assistant general manager, corporate planning, for which he will continue to be directly responsible.



The winner of the Blue Riband had Data General on its side.



Data General supplied the computers and communications management that helped the Virgin Atlantic Challenger to a new world record.

Data General
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THE WEEK IN THE COURTS

The rights of the accused versus the soaring cost of legal aid

THE ADMINISTRATION of a state-funded legal assistance scheme is, after nearly 40 years, *overdue for a shake-up.*

The Government's Efficiency Unit has scrutinised the system and proposed a radical revision of legal aid and advice, at present under the control of a legal services board responsible to the Lord Chancellor. Its proposals are based on the existing system, and reject the idea of a salaried service that would provide all legal aid assistance and advice.

From its inception in the Legal Aid and Advice Act 1949, some lawyers saw the Legal Aid Scheme as the first step down the slippery slope to a national legal service. Others shared a view, often held among non-lawyers, that the whole scheme was a cunning device, concocted by the legal profession with the aid of their allies at Westminster and Whitehall, to distract and stave off any nationalisation of the profession.

In fact, it has been neither of these. At birth it represented a fresh and more realistic approach to an old problem—how to make legal aid and advice available to those who could not afford it.

The professional bodies had been neither particularly gullible nor cunning in their attitude to the report of the Rushcliff committee which preceded the 1949 legislation. They merely recognised the necessity of meeting a growing social demand and did their best to make a virtue of it.

No one could fairly accuse the profession of having subordinated public to sectional interests. And it has, in general, been so ever since. It is the complexity of the system, together with the large bill to the public, that has led to disquiet in official circles, and to a call to bring the whole scheme under closer governmental control.

From the outset the civil legal aid scheme has been administered by the profession—the Law Society in collaboration with the Bar.

There was originally an argument in favour of lay representation on the various administrative committees. It was rejected, except for a powerful lay element in the Lord Chancellor's Advisory Committee.

Over the years that body, by its annual reports, has had an immense impact on the development of legal aid. Those who argued for a "consumer voice" in the administration of legal aid could feel they had a very good second best.

> Those who argued for a 'consumer voice' in the administration of legal aid can feel they have had second best

The provision of legal advice has proved to be a much more difficult area in which to satisfy the needs of the public. There are no arrangements for co-ordinating the voluntary agencies and the private legal practitioners who provide more or less expert advice on a vast range of similar matters.

Advice on legal matters, unlike legal assistance in litigation, can rarely be considered out of their social context. Hence some of the better advice has come from organisations, like the citizens advice bureaux, with their multi-disciplinary approach to clients' needs.

One office has been operating for six years within the Law Courts in the Strand to help unrepresented litigants. The judges have made frequent use of this unique service.

The Efficiency Unit's proposal is that, except in criminal cases, initial advice should be given by an advice agency, properly funded by government, rather than by a private practitioner.

Legal aid in criminal justice has been altogether a creature of a different hue. Although there has been some advocacy in the past for assimilating criminal legal aid in the civil scheme, it has always been resisted.

Broadly, the reason for rejecting assimilation was that it is for the parties to a civil case to decide whether they want legal aid, and for the state to intervene if it is considered that the parties require legal aid and the costs are beyond their means.

In criminal cases the public interest demands that the accused should be legally represented. The enormous increase in the business of the criminal courts has made the bill to the public unacceptably high. Crime is the largest sector of costs to legal aid, although it is growing more slowly than civil cases.

Much of this worrying cost to the public stems from the practices and procedures of the courts. In an adversarial system, where the judges do not directly determine the breadth and scope of the evidence, and are there mainly to control the forensic process and adjudicate between *disputing* parties, the professionals are responsible for the time taken to hear the cases.

It has been the *failure of the* practitioners in the criminal courts to curb the excess of prolix advocacy that has appreciably lengthened the time it takes for a criminal trial.

When the Roskill committee recently recommended replacing trial by jury by a specialist tribunal to save time and money, the Criminal Bar Association hotly opposed such a reform, although it expressed willingness to make procedural changes in order to cut costs.

The Lord Chancellor's response to the Bar and to the Law Society over the claim to better pay for criminal legal aid, recognises the need for streamlining court proceedings. Part of the increase in pay is *dependent upon the professions* changing some of their practices.

> Much of the worrying increase in the legal aid bill stems from practices and procedures in the criminal courts

There can be little doubt that it is the reform of both civil and criminal law procedure that will keep down the cost of legal services to the public.

The change in the structure of the administration of legal aid and advice is prompted by the need to exercise restraint in the cost of the scheme.

But above all the new structure needs to encompass a radical rethink by the profession of what kind of services it is providing.

Justinian

Qualifications plan for professions urged

BY HAZEL DUFFY

STRONG SUPPORT for the idea that the professions should be included in a national scheme of vocational qualifications has come from seven professional bodies associated with the business sector.

The heads of the organisations have expressed their desire to be involved in a letter to Lord Young, Employment Secretary, who is expected this week to publish a white paper on education and training.

The organisations are: the Institute of Administrative Management, the Institution of Industrial Managers, the British Institute of Management, the Institute of Personnel Management, the Institute of Marketing, the Institute of Purchasing and Supply, and the Institute of Chartered Secretaries and Administrators.

The Engineering Council has told Lord Young it does not want to be involved. Other professional bodies including those for doctors, dentists, solicitors, barristers and accountants have not yet formally agreed their position.

A group which reviewed the vocational qualifications recommended to Lord Young earlier this year that there should be five levels of qualifications. The first would be those awarded on Manpower Services Commission training schemes, ranging up to the fifth level encompassing professional qualifications.

The seven supporting professions wrote: "We believe that the future of our professions is *inextricably* linked with the success of commerce and industry in the UK and that we have a major interest in the *development* of vocational training and education in this country at all levels. We want to be at the centre of that development and not outside it."

Higher education in Britain

Time for a new school of thought

In an open letter to Kenneth Baker, the Education Secretary, Patrick Coldstream argues for new links between businessmen and academics to avert a crisis in colleges and universities.

ON THE day you got your new job I reported to the Council for Industry and Higher Education on three months of consultation with universities, polytechnics and industry. The council is a group of 20 chairmen of very large companies and ten vice-chancellors and polytechnic directors promoting the relationship of business and higher education. I had talked to well over a hundred important people (vice-chancellors, poly directors, chairmen, research directors, professors) and hope you will be interested to share my conclusions which are an amalgam of theirs.

The best academics and the best businessmen are fast learning to speak a common language and, indeed, are using it to say much the same thing. This is that higher education faces imminent crisis and that just when we see it as the critical economic asset for the future.

That is not to say that students are not being taught and research not being researched. What is more, the demand for "technology transfer" coupled with financial pressure has spawned a positive boom in "links" between business and higher education. Joint professorships, joint degrees, joint research products, joint consultancies, university holding companies, science parks, industrial awards in universities and government awards for academics in business, new consortia to establish industries' needs for continuing education; all these bloom, some amateurishly, some full of professional promise, like a thousand flowers.

But these, imaginative and encouraging though they be, are only at the margin. At the centre of things sensible businessmen and sensible academics feel an aching lack of policy. The evidence they point to is a list of contradictions.

Boards of directors have, belatedly no doubt, at last begun to hear the message (from ministers, the National and Economic Development Office, the Manpower Services Commission, consultants and pundits) that they need more educated people throughout their workforce. But at *precisely* this moment the Government is publicly planning for a reduced supply of graduates on demographic grounds. It must be absurd for there to be no agreement on even the principles which should govern choices about the future capacity of the higher education system.

Moreover, the critical numbers debate is conducted largely in old-fashioned terms of three-year conventional degree or part-time student. But at just this moment both companies and institutions are poised to embrace learning patterns with interestingly blurred outlines: degrees that last into working life, that are mixed up with work experience and even accredit some of it towards qualifications, or that include some portions of the companies' own in-house training as part of the syllabus. These need to advance very rapidly. The ingredients for a new policy, radical and essential, are felt to be lying around now but no one puts them together.

There is a contradition of intention and result. With the aid of some £25m in cash and kind from business, new student places were created for training in information technology. But in practice potential poly students took up the extra places in universities and some poly places were left unfilled. Everyone turned to the schools to look for a sound output of science-based candidates only to be faced with the appalling figures of shortage for mathematics and physics teachers.

Take again the reactions of the institutions themselves to the reduction in their grants at the beginning of the 1980s. The sudden need to get more teaching for their money was barely compatible with a national need for more science engineering places since the scientists and engineers cost so much more per head to educate than do the humanities students.

Voluntary staff reduction schemes again, if not skilfully handled, have left many of the "wrong" lecturers of the "wrong" ages in the "wrong" places. Industry perceives, of course, that high-powered scientists and technologists are among those that find it easiest to go. So that now there are a number of important and "relevant" university departments so denuded of talent that they have fallen below the size critical for any real effectiveness.

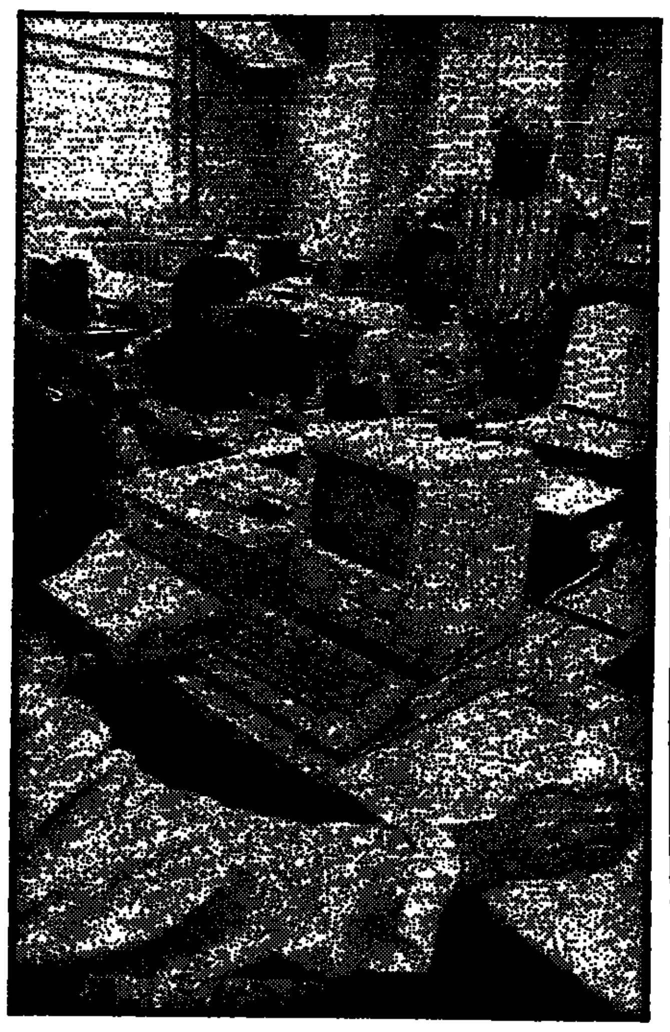
If industry is to be tempted to contribute more to our higher education, there will have to be better ways of allocating rationally the resources available. There is still no forum for setting priorities or maximising national economic return from scientific research, as the cabinet's own advisory committee (ACARD) recently reported. Nor are there schemes for the strategic siting and co-operative use of the extremely expensive equipment on which much research in the international league increasingly depends.

Companies even complain that they receive few joint proposals from institutions for help with equipment installation. Yet if the present machines have been hard to afford, many professors will find the next generation entirely beyond their purse except as part of some co-operative effort.

And in the longer run academia too must work within the constraints of international competition; brains will drain to where research facilities are best.

And finally, ask industrialists, how can the chairman of the University Grants Committee (UGC) be threatening the closure of universities when the national discussion has hardly begun on the capacity needed for "continuing" education and for re-training and updating the armies of employees that are going to need it. Is it not missing the point, moreover, for the UGC to rank academic departments for the receipt of grants without reference to the industrial need for the particular research work undertaken.

The contradiction is summed up like this. Eighteen months ago the much-quoted NEDO report, Competence and Competition, showed the UK workforce to be badly under-educated by international standards. This month the Institute of Manpower Studies after an enormous survey shows that managers need broader perspectives, while workers without education and skill are increasingly likely to get sacked and stay sacked.



TODAY'S STUDENTS: Are there enough to meet industry's needs?

So higher education, its vital task reaffirmed, ought to be holding its head high and stepping confidently into the breach, which would of course be the right stance for winning the co-operation, not to mention the resources, from industry that everyone knows will be needed if we are to get the modern learning system we need. Instead, however, higher education feels drearily constrained from taking initiatives, hit over the head, unrecognised and unable to plan.

Paradoxically the impending damage is concealed by the counter-irritant of the Government's financial cutbacks. It is too easy for real long-term concern to be submerged by the need to complain about the immediate emergency. The real objection to the current squeeze, though it has almost certainly gone too far, is that it is extremely inefficient and that it is not accompanied by investment in radical and rapid change. In short we are achieving too much pain without the means of a cure. There is not even a prognosis.

Here then must be an opportunity for a new Secretary of State. After all there is not a lot of money and not much time before the election for you to achieve a lot but if you were to offer a serious new forum and a new machinery *thinking* (with serious input, but without bossiness, from industry and commerce) about the desired relationship of higher education to the economy, I believe you would find an immediate response.

Certainly you should find it possible to talk about an equal partnership of wealth creation between those responsible for creating skilled and educated brainpower (presumably the best, wealth of all) and those responsible for using it in the marketplace.

The author is Director of the Council for Industry and Higher Education.

Demise of the City gent

By Barry Riley

FORGET THE scrapping of commission scales, the introduction of dual capacity and the arrival of the big international banks and securities houses on the London stock market scene. Such developments may constitute the generally accepted City revolution; but for many practitioners in the Square Mile the real revolution lies in the drastic changes in their style and conditions of working.

It is not many years since gilt-edged brokers and jobbers, for example, led a comparatively relaxed existence in London. The market did not open until 10 am, but there just might be a conference to attend at 9.30. The official close was 3.30 (which it still is) and though there might be some after hours trading, it was unlikely to stretch beyond 5 pm.

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But in two stages the market's opening has now been brought forward to 9 am, and in an increasingly competitive environment 8 am morning conferences are becoming the rule. It isn't a life for gentlemen any more.

In more international markets, things are worse. Most of Europe is an hour ahead of London, so the market makers in European stocks at Savory Milln, for instance, are trading from 8.30. At the other end of the day, dealers work a duty rota to handle New York trades up to Wall Street's close at 9 pm London time.

The rot has similarly set in outside the securities market. At Union Discount these days, the first deal is done around 8 am and business continues until 6 pm. It is a far cry from the good old days when discount market hours were roughly ten to four, including a long lunch.

The intensity demanded of key personnel in today's financial markets scarcely goes with a rounded lifestyle and balanced family life. Money in plenty there may be—but there are also hard luck stories of stock market men being forced to move from their elegant stockbroker bekt residences to London flats because the first trains don't run early enough.

Curiously, stock market trading now begins earlier in London in terms of local time than in New York, despite the reputation of still tougher conditions for Wall Street traders. There is in fact a lot of debate about whether trading on the New York Stock Exchange should open at 9.00 rather than 9.30, and the top men in the securities firms are rather keen on the idea. The average trader, not surprisingly, is considerably less enthusiastic.

To some extent the pressure for extended hours comes from the globalisation of the investment industry, making it possible to transact business in other time zones. The workaholics in the Chicago futures markets have even talked about sessions in the wee small hours

More fundamentally, however, the trend appears to be related to the growing amount of professional trading on the markets. Because the professionals are at their desks all day watching screens, they are ready at any time to trade anything that moves.

In the US Treasury bond market the volume of trading between the professionals—admittedly on tiny margins—is reckoned to be four times as great as the amount of business actually done with genuine final investors.

The limit of the process then becomes determined by the sheer stamina of the practitioners, up to the point at which they would need to double-shift, thus seriously undermining the economics of the operation.

This internal, professional orientation of the securities markets is relatively new. The old approach is still evident in continental Europe, where hours of trading are much shorter and may amount to little more than a callover of listed stocks once or twice a day.

The attitude is that if investors want to trade they will best wealth of all) and those beat a path to the exchange.

This was all very well when markets were dominated by tradition and competition was regulated out of existence. But now the "open all hours" markets in London are beginning to have an impact on a number of continental bourses.

The Paris Bourse, for example, is moving away from its historical pattern of opening only for two hours from 12.30 to 2.30.

The trend seems inevitable, but it is worth asking whether the final investor is really going to benefit. The main beneficiaries of extended trading would appear to be the professionals — and not just the fund managers at investment institutions but even more so the specialised traders within the security houses engaged in activities such as "programme trading."

To the uninitiated, this is an increasingly popular New York activity which is based on a kind of arbitrage between the stock market and the futures market, whereby stocks or stock options can be hedged against stock futures contracts. The profit is generated from the anomalies and inconsistencies whicharise from time to time in the different markets.

To the extent that trading on the stock market is at best a zero sum game, and is in practice a negative sum game allowing for the costs of the system, such profits made by securities market professionals must be at the expense of genuine investors. It is a moot point whether factors such as increased liquidity or better hedging facilities can compensate them.

Noneof which is an argument for adopting the approach of, say, the Trondheim stock exchange, where trading takes place at 1 pm on Wednesdays.

But the investor dreaming of the ability to pick up his telephone at any time of the day or night and plug into the global 24-hour market place will need to be aware that costs of such a technological extravaganza will be high, and in the end he will pay.

MANAGEMENT

EDITED BY CHRISTOPHER LORENZ

The guru factor

Why America is just wild about wisdom

Terry Dodsworth opens a series examining what lies behind the international boom in business punditry, which has turned consultants and erudite academics into millionaires

BACK IN the early 1960s, when an ebulliently materialistic America was starting to slide into bitter soul-searching about the Vietnam War and a host of other social concerns, Tom Peters, Kenneth Blanchard and John Naisbitt were fellow students at New York's Cornell University. One of Peters' most *vivid memories is of Blanchard* dressed up as a big red bear, the mascot *of the Cornell* football team.

Twenty-five years on, America's mood is anything but bearish. Its entrepreneurial drive is back with a vengeance, and leading the way is the Cornell trio—each of them as a millionaire preacher of the new gospel of corporate success.

The phenomenon of America's million-selling business gurus first hit the nation in 1983, when the US was *just beginning* to edge out of one of its severest *post-war* recessions. Three of the four top spots in that year's New York Times non-fiction best seller list were taken by business books—all of them written by Peters, Blanchard and Naisbitt.

Since then the floodgates have opened to a wave of business books whose sales rival those of the hottest-selling works of all time.

The publishers of *Iacocca*, the story of the irrepressible Chrysler chairman, claim that barely 20 months *after* the autobiography hit the bookstalls it *has already outsold* any hardback in history, bar *Gone With The Wind, Jonathan Livingstone Seagull*, and a few childrens' books. The hardback print run in the US and Canada alone has reached 2.6m so far. The paperback edition appeared a fortnight ago, with an initial printing of almost 3m copies.

Iacocca and the other three books each represent a markedly different genre of business writing. But they all echo a common theme—a compelling confidence in the American business system. They offer reassurance and optimism at a time when US companies have been going through an unprecedented period of self-analysis and painful reconstruction.

The main appeal of *Iacocca*, for example, lies in what one publisher calls its "heroic" qualities, the fairy tale story of a man who rose by his own efforts from humble origins to mount one of the most remarkable industrial rescues of all time. The book spent 20 weeks at the top of the New York Times non-fiction lists, and has still not been dislodged from the Top 20.

The other three works tackle the themes of US corporate renovation from very different angles. *In Search of Excellence*, by Tom Peters and Robert Waterman, both former McKinsey consultants, sets out to discover and describe what is best in the US corporate world—and has sold over 5m copies worldwide.

Blanchard's *One Minute Manager*, by contrast, is a short, snappy, easily-read fable about efficient management, which has soared to sales of well over 4m.

Naisbitt's Megatrends, which has been translated into 22 languages and has sold a claimed 7m copies, emphasises the transition towards an information-based society and an entrepreneurial economy. It ends with a rousing exhortation to the go-getting frontier spirit in America: "We have extraordinary leverage and influence—individually, professionally and institutionally—if we can only get a clear sense, a clear conception, a clear vision, of the road ahead. My God, what a fantastic time to be alive."

For all these authors, publication has brought fame, guru-dom, and fortune. Iacocca, who was already well-known before he burst into print, has developed almost mythic status, and is talked of half-seriously *as a potential Presidential* candidate. Each can command *astronomic fees for an after-*dinner speech or a conference appearance.

"It is no secret," says Naisbitt, who these days often shares *a platform with his wife* and collaborator, Patricia Aburdene, "that we are paid $20,000 for an appearance." Naisbitt goes on the road around the US and Europe virtually full-time in the spring and summer, giving at least 100 speeches a year, so simple arithmetic puts him in the same $2m-a-year earnings category as a Wall Street hot-shot or the chairman of General Motors. Kenneth Blanchard says he appears around 120 times a year, also travelling incessantly in the spring and summer conference seasons.

The metamorphosis of business authors into cult figures is a new phenomenon. Before this new school of gurus *sprang to prominence in the* 1980s, few business books had made the best-seller lists. It was a field dominated by specialised academic publishing, punctuated by sporadic, meteoric appearances of a work that caught the public imagination.

Even the books of Peter Drucker, a management theorist who began writing in the 1950s, and has successfully bridged the gap between an academic and popular approach, never became particularly big sellers.

Clearly, *something* radical happened in the early 1980s to create the differences between today's market and those of yesteryear — differences which lie partly in the period in which the books were produced, and partly in the approach of the authors.

The *turning* point in the popularity of US business writers and speakers *is* generally located around 1981, in the year when, paradoxically, the country began to turn into deep recession.

The two events were not unconnected. US industry, which only four or five years previously had been riding on the crest of an inflationary wave, was suddenly brought face to face with its own vulnerability. The rising tide of Japanese imports was turning into a flood, and Americans were at last beginning to recognise that this was not a temporary phenomenon.

Two books published at this time reinforced the mood of self-doubt in American management — *Theory Z* by William Ouchi, and *The Art of Japanese Management* by Anthony Athos and Richard Pascale. Both these works spoke admiringly of Japanese methods, analysed the culture of Japanese companies, and suggested that the US could learn a great deal from Japan. The books did not become runaway best-sellers, but they sold steadily, made a deep impact, and sowed the seed for an American riposte.

"I often say," jokes Kenneth Blanchard, "that the second biggest mistake the Japanese made after Pearl Harbour was to keep beating hell out of us about productivity." One of the keys to successful US management books since then is the way they pick up the challenge thrown down by the Japanese. The American books present their own champions, extol the virtues of the best US management systems, and present a thinly-veiled suggestion that anything the Japanese can do, US companies can do better — if they really try.

In Search of Excellence, for instance, says "there is good news from America. Good management practice today is not resident only in Japan."

Excellence also typifies one *of the other key characteristics* of almost all the new wave of books: their *overwhelming* concern with the human side of business, in stark contrast with the dry organisational and strategic analysis which dominated management literature in the past.

The notion of American champions referred to in *Excellence is* a theme which runs through much of the new literature. At one level, this is simply a question of elevating a successful businessman, such as, for example, Harold Geneen, the former ITT chairman who published his thoughts on management a couple of years ago, *into a role model*.

The appeal of this style can be seen in Iacocca's book, with its aggressive reassertion of the values of American entrepreneurship and individuality, described by its publisher, Stuart Applebaum, as "the ultimate success fantasy."

At the same time, the idea of champions, or model companies, has been reworked in many of the books into the "how to," prescriptive approach *which has such a strong* tradition in more general US publishing. *Intrapreneuring*, a work which hit the headlines a year ago with the message that large companies can develop entrepreneurial instincts if they organise themselves for it, showed how several big US companies had already done it.

On a *personal level, too*, "many are basically a new twist on the age-old theme of how to make a million," says John Boswell, a books packager who thinks up ideas and sells them to publishers. Boswell is the man behind "*What They Don't Teach You At Harvard Business School*, a book written by Mark McCormack, the sports *promoter, which gives the reader* tips on how a self-taught dealmaker manages to stay a step ahead of the competition.

The emphasis on entrepreneurship serves two purposes. On the one hand, it speaks very directly to the new wave of self-made businessmen, who are still emerging at a virtually unparalleled pace. Many of the people who attend *the* conferences and seminars given by the gurus are independent businessmen setting up on their own or concerned about how to run their companies better.

The vaunting of entrepreneurial values equally appeals to the current business school generation. Not for a very long time has the business of making money been as popular with young people in the US as it is today—a reflection of the emergence from the Vietnam era and from the deep social concerns of those years. "The period of introversion has given way to a new era of greed and avarice," says Raphael Sogalyn, literary agent for John Naisbitt. "The popular psychology books of the '*Your Erogenous Zone*' variety have been overtaken by books that show you how to try to make it in the world."

While this revival of the money-making ethic established the conditions for the business books boom, the phenomenal sales figures also owe a great deal to changes in writing and publishing techniques. First, the better books are all very carefully crafted. They are easily read. They have lots of colour and human detail. They avoid theorising, even when, as in the case of *Excellence* or *One Minute Manager* there is a wealth of research and academic underpinning to the themes they present.

To achieve this readability, Iacocca worked with a writer-journalist, William Novak. Blanchard, an academic who has written and collaborated on several textbooks, says that he *and his* co-author Spencer Johnson, a psychologist who has written *several stories* for children, carefully examined a number of successful business books before deciding on their approach.

"One of the things we found was that probably less than 10 per cent of the non-fiction books that are bought are not read *past the first chapter*. We decided we would make our book one chapter long," he says. As a result, *One Minute Manager* has just over 100 pages and can be skimmed satisfactorily in an hour. One academic goes so far as to call it "a good loo book—*you* can read it in a sitting."

Second, the tone of the books is clearly fashioned for the present generation of dedicated *go-getters*. Today's authors mix wit with a deadly serious concern about *improving* American competitiveness. At the same time, they are *determinedly*, unswervingly optimistic, an attitude which reflects the change to an era *of* reassertiveness within the American corporate sector.

Third, business books have profited from the application of new mass-marketing methods in the publishing industry. The large sales figures being rung up by the most successful books partly depend on bulk buying by the companies that want to use them as text-books or acquire them for corporate presents, while many of the large bookstore chains now aggressively discount best-selling hard covers as loss leaders. "Hard cover books have a huge market today," says Raphael Sogalyn.

How long can the boom continue? Many publishers believe that the fashion for business books has already peaked—a point *that is* underscored by a market that is wallowing in *frequently second-rate* new products. Significantly, perhaps, there has not been a business book in the New York Times' Top 10 non-fiction *list for over* a month, and neither of the sequels to *Megatrends* and *In Search of Excellence*, has enjoyed the success of its forerunner.

The books that have done best recently are of the autobiographical - human interest type, that have a *consistently* solid readership—works such as Robert Lenzner's *The Great Getty*, or Ken Auletta's *Greed And Glory On Wall Street*, the story of the takeover of Lehman Brothers by Shearson American Express.

As for the lecture circuit, Bernie Swain, head of the Washington Speakers' Bureau, a leading agency, *thinks* that the fascination with business speakers has about another year to run. But for the time being, the big names are still pulling in the crowds. At a recent Florida conference of the US Urban Land Institute, attended by nearly 1,000 delegates, there was no question that the star speaker in a long and impressive list of guests was Naisbitt.

"He is such a brilliant communicator," *said one Californian* participant, who could have walked *straight out of Megatrends* as one of the new generation of self-made US businessmen. "You may not agree with what he says, but he is controversial, and he makes you think. We all need that."

THE ARTS

Kuijken & Tate/Elizabeth Hall

Dominic Gill

The Age of Enlightenment, who made their London debut on Friday night in the Previn Music Festival, are a new British orchestra of period instruments. The orchestra (an unusual feature) is self-governing, and "intends to invite some of the most distinguished international conductors from both the 'original instrument' and 'modern' worlds of music to be guest directors." Future plans, drawn up with the help of H. C. Robbins Landon, include a Weber programme later this year, and two concert series of Haydn and Mozart in 1988 and 1989, under such directors as Rattle, Harnoncourt, Mackerras, Leonhardt, Brüggen and Norrington. But for their debut the orchestra chose the Renaissance and Baroque specialist Sigiswald Kuijken, in a programme ranging from Telemann and Rameau to Haydn.

They are a splendid gro'.e'. 36 or so players strong, bright-toned and responsive, who approach the whole business of "authentic" performance on period instruments without preciousness or mystique. Their playing of Rameau's suite of 24 dances from *Dardanus* (his third *tragédie en musique* of 1739) was a great refreshment, full of vivid colour and a nice rhythmic bounce that had as much to do with the quality of the timbre — especially the non-vibrato string timbre — as with niceties of performing style.

They also gave the French composer Francois-Joseph Gossec's E flat symphony op.12 no.5: of its routine sort decent enough, but essentially a dull, repetitive piece — is it really necessary, I wonder, as some people say, to hear the second-rate music of the period to appreciate Haydn, for example, the more? Telemann's D major Ouverture of 1756—one of his last compositions — is dull but more interesting: significant flecks of original colour shine through the conventional routine.

Both performances were exceptionally lively and committed: more so even than the music could ever justify? The Age of Enlightenment's account of Haydn's "La Poule" symphony also had admirable drive and clarity: even though I suspect the ensemble as a whole, and Kuijken in particular, may have been paying too much attention to Robbins Landon's curious view of the first movement as "ironical"—of which quality it has not an ounce, except the dramatic irony of combining and reconciling polar opposites. I should ideally have liked to hear the orchestra lend a little more wildness, and arrogant firmness, to Haydn's extraordinary proposition: but that is something that a wilder and firmer director than Kuijken could more easily find.

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The only quality, indeed, lacking in any degree in the *Age of Enlightenment's playing*—and they did not by any means lack it entirely—was that decisive electric current which underpinned the whole of the English Chamber Orchestra's programme the following evening in the same festival. The ECO are not an "authentic" instrument orchestra, but they are of authentic size, and they are playing these days at the very peak of their form. Jeffrey Tate was the conductor.

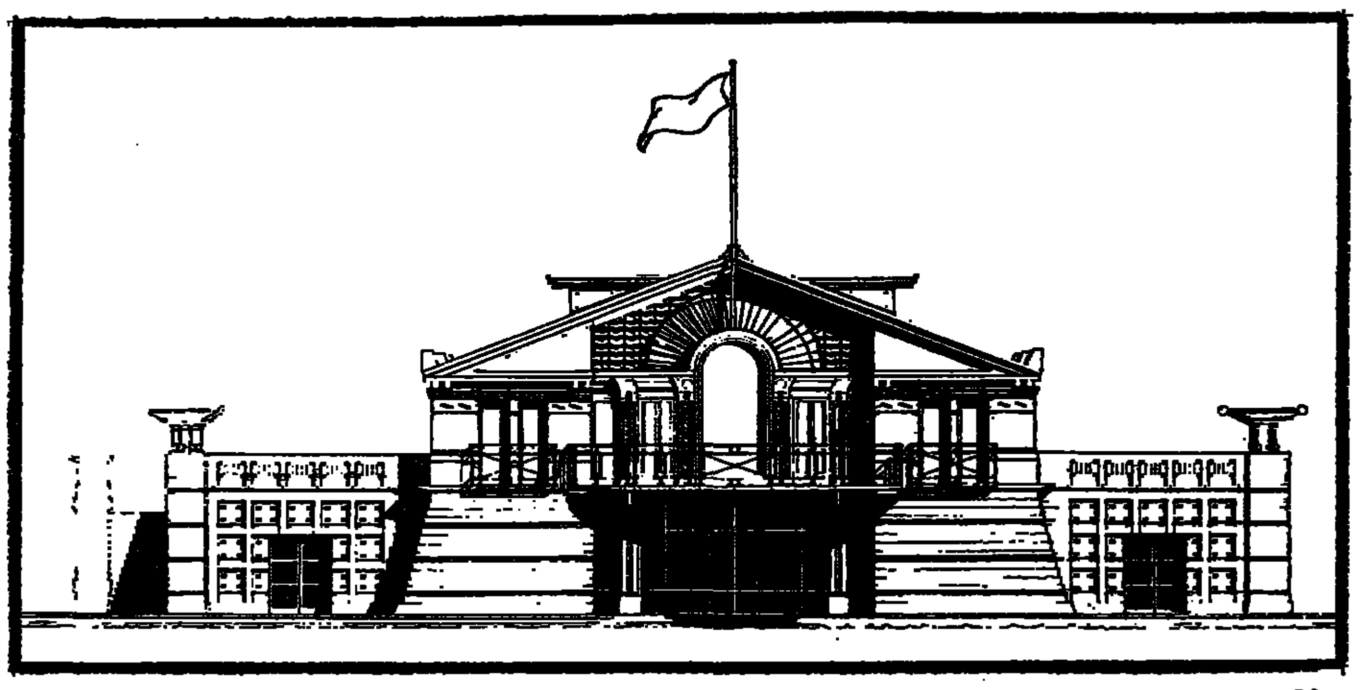
Their performance of Bizet's little *Jeux d'enfants* suite had a marvellous high-voltage spring to its step; and their account with Cécile Ousset of Ravel's G major piano concerto was a grand and full-blown affair—exceptionally close-up in both manner and sonority, almost too weighty at some climaxes for the size of the hall, but very exciting, compelling from first to last. Exquisite solo cor anglais from James Brown, flute from William Bennett and oboe from Neil Black. The Spring Symphony (No. 1) is nobody's favourite Schumann work: but it was a delight to *hear the music played with* such precise, warm and open-hearted spirit — and those extraordinary Wagnerian prefigurings in the finale (especially the horn and flute motif just before the recapitulation) are always worth waiting for.

*

The decline of South Bank catering continues. Will the new South Bank Board perhaps persuade the present owners of the concession to sell decent and decently - priced sandwiches again at the Elizabeth Hall, instead of the scrappy "open sandwich" they now only provide for £1.75? Fresh cakes at the Festival Hall instead of days-old, cardboard-dry? And even prevent the bars from passing off, quite illegally, to customers who ask for orange juice, a commercial orange-coloured drink called "Hi Fruit"?

Architecture/Colin Amery

A deadly sin committed at Henley



A new temple by the Thames, headquarters of the Henley Royal Regatta, by the Terry Farrell Partnership

When the Henley Royal Regatta opens on Wednesday much of the preparation will have taken place in the brand new Regatta Headquarters. They stand right next to the five-arched, stone, late 18th century bridge, raised to the same height on a large brick plinth. The architects are the Terry Farrell Partnership, frequently described as Britain's leading post-modernist practice.

It is a pretty remarkable building to find in Henley-on-Thames, one of those affluent Thames Valley towns that try to pretend that Slough and the M4 do not exist. As as consequence of its affluence much of the Georgian character of the town survives, but is subject to the carriage lamp syndrome. There are however plenty of lovely brick houses, a late Gothic church with a lively chequered flint and stone facade, good stucco Assembly Rooms, gabled and half-timbered inns, and some high and dramatic malthouse towers.

Any new architecture here should continue the gradual, indeed rather gentle development of the domestic tradition. There is another school of architecture that flourished in the Thamesside: florid turn-of-the-century villas covered in twisted fretwork and patterns; the Leander Club has some of this.

The Royal Regatta headquarters building replaces an old timber boat house with barge boards and a pub. It is an unashamedly strong and colourful creation in the modern classical revival manner.

It is something of a shock at first sight. The best view is from the opposite bank of the Thames. From here the solid rusticated brick plinth appears to rise from the water. When the gates are closed to the boat and pontoon store inside the plinth resembles a classical water gate or the ground floor of a Venetian house. Sitting on this large plinth are the offices and above them a flat for the Secretary.

The upper part of the scheme reads as one large pediment.

This is where I would quarrel with the design. To carry a pediment of this size a much larger and better-proportioned main floor is required. What is in essence a bungalow cannot bear the weight and associations of this pediment but the architects do seem to have been aware of this solecism. They have tried by dint of a lot of glazing to suggest that this is just a modest pavillion, somewhat embarrassed to have to support the revival of the Classical tradition.

As an *esprit* this little essay might work, but it remains a very two-dimensional interpretation of the tradition. Imagine what a Soane or a Lutyens would have done with this commission. They would not have worried about the modern need to pretend that classicism is a game. They would not have used industrial elements for the dentils and frieze, not failed so dismally to invent a proper column. The use of a floodlight as acroterion (a carved block at the end or top of a pediment) is amusing, and the vases that stand on the corners of the plinth have an elegence that is very pleasing.

Inside the HQ the blue rooms are pleasant and the committee room that soars up into the pediment itself is very agreeable. The utmost ingenuity has gone into the fitting of the flat into the roof.

It is the mixture of colours *and materials* and the strangely out-of-gear proportions that prevent this entertaining idea from being a total success as a piece of architecture. In many ways, particularly the breaking of the classical rules, this Henley headquarters is in the tradition of the famous row of riverside houses at Pangbourne. They were always known as the Seven Deadly Sins.

*

There until July 4 to see two examples of the work of an interesting Portuguese architect, Alvaro Siza, at the 9H Gallery, 26, Cramer Street, London, W1. (afternoons only from 12.30). Of particular interest is the new bank for Borges and Irmao at Vila do Conde. The interior of this bank in marble and plaster is extraordinary and quite unlike anything commissioned by a bank before; it should be seen.

Infidelities/Boulevard

Michael Coveney

The latest attempt to energise the Boulevard, a useful off-Broadway style venue snuggled up against Paul Raymond's Revue Bar in Walker's Court, Soho, brings to London Sean Mathias's Ortonesque (I apologise for the adjective, but it is unavoidable) little sex farce, which Martin Hoyle reviewed on this page at last year's Edinburgh Festival.

Alastair Muir

Jill Bennett

The situation, rather than the dialogue, is Ortonesque. Jill Bennett, who plays Janine, the unlikeliest schools dinner lady imaginable, has picked up an unemployed removal man in a park. She offers him biscuits and a foot massage. Her husband Jeffrey (John Castle) is a traffic warden who compensates for Janine's supposed infertility by seducing young boys. "I'll have a fag," he says post-coitally. "You just did," ripostes the youngster. Quite. No more. "Ortonesque."

The couple's separate sex lives are turned upside down when the removal man breaks the rules by turning up six days before his appointed Tuesday rendezvous. And by then the other boy, Mark, has made love to his own mother, the dinner lady, and offered to show her Paradise. (He has been following her for nine months, even going so far as to trail her through Sainsbury's in the Finchley Road.)

He makes the same offer to Dad but proceeds oddly to bind both parents hand and foot. The play by now has become ridiculous, with Mark's orphanage credentials as the identified Jason ("whatever happened to Jason?") exploded utterly and the married couple stripped to their underwear, left to their own resources and cherry brandies while the removal men—suddenly we're threatened with "Pinteresque" overtones, too—clear out the apartment.

I like Geoff Rose's design, especially the pink doorframes, and Mr Mathias directs his play with an optimistic conviction that he might write a better one before long. Details are dodgy. Mark, born in 1963, could not have been a toddler when "She Loves You" was released (in 1963) but Mr Castle, a staunch and solid actor, lends the piece dignity and Miss Bennett weighs in with a hideously enchanting display of crumbling dignity and sensual desperation. Lucien Taylor plays the *child* molested.

The Legend of Padgate

Michael Coveney

Padgate is a new town development near Warrington for which Charlotte Keatley and her cast of local schoolchildren and amateurs have devised a medieval pageant play that starts in Padgate's well appointed studio theatre and moves, courtesy of the Warrington and Runcorn bus service, to the Cinnamon Brow Community Centre. Miss Keatley's play, which features a herd of hogs, offers the alternative title, I'm afraid, of *Starting from Scratchings*.

Our contemporary theatre is returning to Mystery Play principles of staging and local involvement partly to reactivate ratepayers' interest and partly, I feel, to rediscover a sense of scale in drama. Howard Barker and David Edgar, for instance, have worked on Ann Jellicoe's West Country experiment, and the RSC has, in *The Dillen*, relocated the company in its adopted Stratford environment. The fashion may not spawn a first class text for some years, but the impulse is fascinating and pervasive and, certainly in Padgate, thoroughly enjoyable.

This is the acceptable face of amateur drama with its colourful home-made costumes and bright-eyed participants. In the studio we are welcomed by the wise woman of Walintune, or Warrington, who creates Padgate and then the rest of the world. The hogs' chorus, the people's protection, offset a capering band of evil humours, and this spiritual contest is threaded through the consequences of the Norman invasion. Two brokers' men from the Domesday Book choose a site for King William's castle. The locals set up their own town in opposition.

The locals are, in fact, all women, who have lost their men in the Norman invasion and who have acquired skills of thatching, tanning and building. They demonstrate these in one of the evening's slower sequences. With all the clever manipulation of masks, a papier maché Halley's Comet, sackcloth costumes and hogs' heads (the pigs have a catchy tune in Mark Vibrans's apposite synthesised score) the feminist theme often creates a whimsical echo of Howard Barkers' post-Crusades *The Castle* produced last year in The Pit.

The studio section drags its feet, and trotters, before a silver band pipes us aboard the bus. At the Cinnemon Brow a Norman fair is in full flow, imaginative use made of a converted stone barn, tricked out with beams and heraldry, where the French lord's wife has completed her conversion by joining the women and rewriting the colonial charter. Their own village, the society they have created—a dramatic analogy for the accommodating pleasures of the Community Centre — is acknowledged by the French overlord whose men, subjected to hogwash and determined to save their bacon, dissolve back into a co-operative venture on the womenfolk's terms.

Shell/LSO's first decade

Stephanie Gonley has won the tenth Shell-LSO Music Scholarship, worth £4,000, the prize money going towards smoothing the path of the recipient towards a professional career in music. This year the scholarship was reserved for string players; Stephanie is a violinist.

In the past decade Shell has invested £1m in the sponsorship, and around the same sum in back-up suport. Its success is shown in the number of past winners that are now leading performers on the British musical scene.

More Previn/Festival Hall

David Murray

The free programmes at Friday's "André Previn Festival" concert set a fine un-British precedent, but they didn't include the words of Ravel's *L'Heure espagnole*. For an audience of mostly monoglot Anglophones, that was a bit dampening. Robin Golding's plot summary was excellently clear, but there's no substitute for matching Franc-Nohain's mock-classical verse with Ravel's neatly comic setting. Anne Howells's stylish, randy heroine was a great help. Had they been clambering in and out of actual clocks, Martyn Hill's preening poet and Stafford Dean's municipal heavy might have sent themselves up with more verve.

It still made a lively concert performance, even if Stephen Roberts's deportment as the virile muleteer suggested a superior head waiter, and Alexander Oliver's tenor cuckold was no *trial* (one of those French voice-types named after a long-dead singer: Antoine Trial specialised in nasal wimps, and came to grief as a Robespierre agent). Previn lavished sympathy on Ravel's mock-clockwork score, but let the tempo slip rather too often to accommodate his singers. I reckon the piece ran five minutes over par, a fair measure of the gap 'twixt affable reading-through and strict comic vitality.

The orchestral version of Ravel's "Alborada del gracioso" (nowhere near so effective as the piano original) was less happy: muzzy trumpets where brilliance is essential, and every string-tune drowned by brass. Previn's own Guitar Concerto from 1971 is apologetically bland stuff — the irruption of jazzy electric guitars and kit-drums in the Finale is a mere trick, never developed—but it made a good excuse for hearing John Williams. He delivered Previn's little tunes with cool tact, and in the slow-movement cadenza even suggested honest depths.

'Liaisons' returns

Christopher Hampton's adaptation of Laclo's novel *Les Liaisons Dangereuses*, which won the Plays and Players Best New Play Award in 1985, is to return to The Pit at the Barbican for a short season in July before transferring to the West End in October.

Lindsay Duncan and Alan Rickman again play the leading roles. Howard Daivies directs, with designs by Bob Crowlfey.

Pearl Bailey/Festival Hall

Kevin Henriques

Though she cannot be classified an out-and-out jazz singer Pearl Bailey is essentially an improvisatory performer as she so engagingly proved on Saturday evening in her recital with the Louie Bellson quartet, part of the second André Previn Music Festival.

Her strong show business roots—she started out as a speciality dancer in the 1930s—have blessed her with a sharp, sly wit, an ability to cope with any situation and to take firm command of an audience without any chance of being disconcerted.

Whether insisting that the handful of people seated behind her move to get a better view, sitting on the edge of the stage singing, *sans* microphone, "I'll Be Seeing You" (written by Sammy Fain and Irving Kahal, *not* Noël Coward as he so mysteriously insisted), exchanging sallies with the audience, going walkabout in the auditorium and—it really *was* unrehearsed—spotting Cotton Club star of the 1930s Adelaide Hall and persuading her to sing "I Can't Give You Anything But Love," Pearl Bailey does so with a rare and totally natural charm.

For a lady who, to put it tenderly, is in her sixties, her wide-ranging voice is remarkably firm and controlled and has lost none of its vibrant, slightly slurred but unmistakable timbre. Yet too often on Saturday it seemed to be wasted on material unworthy of her. Exceptions were a gentle "Easy to Love" in which she essayed some extended hoofing, which did little to help her breath control, and "Fly me to the Moon."

Alas, "Won't You Come Home Bill Bailey?" and "Hello Dolly!" are almost mandatory in a Pearl Bailey performance nowadays and though on Saturday it pleased the ecstatic audience it seems a shame that precious time with this exceptional artiste, who so rarely performs here, is wasted on musical irrelevancies.

Pitlochry departure

The director of the Pitlochry Festival Theatre Sue Wilson, has decided not to renew her contract and to leave after three season's in the job. She will direct the three remaining plays this season, *Far From The Madding Crowd*, *The School for Scandal* and *The Crucible*, while the new artistic director is appointed.

The Dream/Covent Garden

Clement Crisp

Cast changes and débuts were on view at the end of last week in the Royal Ballet's current Ashton triple bill, with the inexplicable irruption of Jiri Kylian's *Return to the strange land* as a horrid warning about foreign travel. (The natives are all neurotic acrobats).

On Friday night Philip Broomhead made an impressive first appearance as Oberon in *The Dream*. To the speed and whirling intricacies of the choreography he brings a supple ease; the stretch of his line is full, his technique is clean, and there is the add'l grace that only a young body can bring to bravura writing. In matter of dramatic interpretation the reading is as yet a sketch: required study should be Stephen Jefferies' Oberon of the night before, where every least gesture spoke — and how clearly! — of a character more sombre in feeling than is usual, dominating the action.

The new Titania on Friday was Karen Paisey, her pretty style very fetching in dance as in emotion, and that the role admits of a range of feeling was seen on Thursday when Wendy Ellis spun and darted through the dance, and matched Jefferies' commanding presence with a delicate obstinacy. An unscheduled début also showed Peter Abegglen as Puck on Friday, elastic in jumps, and set to make the role his own, as has Simon Rice, its excellent incumbent this season.

A bonus on Friday was Michael Coleman's wildly funny impersonation of Bottom as a merry Irish tinker. Mr Coleman can do no comic wrong, and Bottom's stylish point work, like his bemused delight in events, is precise, convulsing, and not to be missed.

It must be said that *The Dream* and *Scènes de Ballet* in their present revivals are very well danced: whatever the imprecisions in the company's way with certain other ballets, these Ashtonian gems are properly displayed. The need to replace *Scènes* with Kylian's mopery defeats comprehension; its wormy outlines and emotional fatuities distort the company's style at a time when first priority must be given to academic propriety and stamina. *Strange Land* is a Barmecide feast given in a mortuary.

The third Ashton piece, *Les Patineurs*, lacks sparkle and charm, its cast giving the impression of never having seen skating.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

Music

June 27-July 3

LONDON

Alfred Brendel, piano and Heinz Holliger, oboe with friends. Beethoven and Mozart. Royal Festival Hall (Mon). (928 3191).

Philharmonia Orchestra conducted by Guido Ajmone-Marsan with Stephen Bishop-Kovacevich, piano. Strauss, Beethoven and Dvořák. Royal Festival Hall (Tue).

London Mozart Players and London Choral Society conducted by Jane Glover. Haydn: The Seasons. Royal Festival Hall (Wed).

English Chamber Orchestra conducted by Philip Ledger with Julian Lloyd Webber, cello and Jose-Luis Garcia, violin. Bach. Barbican Hall (638 8891). (Wed).

SPAIN

Granada International Festival: Alexis Weissenberg, piano. Franck, Schumann (Mon); Eulalia Sole, piano (Thur). Commemorates 1927 generation of poets and composers. Auditorio Manuel de Falla. (22 52 01).

Barcelona, Grec 86 Festival. Orquestra Solistes de Catalunya. Mozart (Tue); mezzo Anna Ricci (Thur). Jardins de l'Hospital.

VIENNA

Vienna Boys Choir and the Bruckner Orchestra of Linz conducted by Lowe Christian Harrer. Bach, Beethoven. St Stephan's Cathedral. (Mon).

Vienna Symphony Orchestra conducted by Kurt Woess with Alfons Kontarsky, piano. Mozart, Bruckner. Rathaus Arkadenhof. (Thur).

Julian Lloyd Webber plays at the Barbican, London

WASHINGTON

Summer Festival (Concert Hall): Highlighted by a visit from the Newport Folk Festival in August, this summer-long series of popular singers and musicians includes recital performances Neil Sedaka, Shirley Bassey, Dionne Warwick and Petula Clark. Ends Aug 27.

CHICAGO

Ravinia Festival: The 51st season, honouring Mozart and the 230th anniversary of his birth and Liszt on the 100th anniversary of his death, starts with James Levine, piano and Shlomo Mintz violin, Michael Ounsunian viola, Lynn Harrell, cello and David Taylor, violin. Mozart, Brahms, Dvořák (Tue); Kathleen Battle, soprano with James Levine, piano (Wed); and Windham Hill Live with Michael Hedges, William Ackerman, and Shadowfax (Thur). Highland Park. (728 4642).

TOKYO

Dimitris Sgouros (piano): Scarlatti, Beethoven, Ravel, Chopin. Tokyo Bunka Kaikan. (Mon). (237 9990).

Josef Anton Scherrer (piano): Boulez, Moroi, Cage, Stockhausen, Takemitsu, Widmaier, Fortig, Ingham. Vario Hall, near Tokyo University (Tue). (815 4151).

Vienna Ball Arts Ensemble: Mozart, Johann Strauss, Haydn. Sogetsu Hall, Aoyama Itchome. (Tue). (481 2590).

Osaka Philharmonic Orchestra conducted by Asahina Takashi. Bruckner. Tokyo Bunka Kaikan (Tue). (571 1989; 237 9990).

Rainer Kussmaul (violin): Bach, Beethoven, Brahms, Bartok. Tokyo Bunka Kaikan Recital Hall (Wed). (237 9990).

Saleroom/Antony Thorncroft

Two of the very best

Two very important British collections come under the hammer at Sotheby's this week: the late Dr Francis Springell's Old Master drawings and the English 17th and 18th century ceramics which for long decorated Tom Burn's beautiful half-timbered Jacobean house at Rous Lench in the Vale of Evesham.

The highlight from Springell, on offer today, is a Rembrandt portrait of an artist in his studio, which could easily sell for £400,000. Other gems are a Dürer of "Christ being nailed to the Cross," with a £200,000 top estimate; an elegant figure study of a young woman by Gainsborough which might make £150,000; and a very early view of Windsor Castle by Joris Hoefnagel, dated 1568.

Francis Springell was born in Prague but came to England in 1939 and settled in the Lake District. He retained an interest in the work of his fellow (17th century) Czech Wenceslaus Hollar and 23 Hollars are up for auction from what was one of the best collections of Old Master drawings in private hands in the UK.

The same can certainly be said for the pottery and porcelain from Rous Lench Court, a house which was given to the late Tom Burn by his parents on his 21st birthday and where he spent the next fifty years filling it with beautiful objects.

The earliest item in the sale is a "Malling" jug dating from 1570-80, with mottled blue and manganese decoration. It is the earliest dated piece of English delft and could sell for £25,000. Few English delft figures exist, but Sotheby's offers a unique Lambeth figure of Apollo which is also dated, to 1679: it carries a £35,000 top estimate. The celebrated Chelsea figure of Hogarth's pet pug dog "Trump" might go for £30,000; only two similar figures are known.

Christie's is stumped for an estimate on a pair of paintings on copper by the young Canaletto which appear at its sale of Old Master pictures on Friday. Their rarity makes a market price difficult to predict but in 1983 three views of the Venetian waterfront sold for £2,000 and £3,000 each.

The first naval VC ever to appear at auction comes up on Thursday. It is the medal won by Seaman J. J. Magennis in 1945 for bravery when, as a diver in a midget submarine, he sunk a Japanese cruiser: it carries an estimate of £24,000-£26,000. A rare Australian Forces George Cross, awarded to Private Ralph Jones for an unsuccessful attempt to thwart a mass break-out by Japanese prisoners-of-war in New South Wales in 1944, might make £10,000.

Christie's South Kensington corners the market in studio sales and on Thursday disposes of the studio of Joseph Alfred Terry, a Yorkshire artist who died in 1939, famous for his versatility.

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Monday June 30 1986

Europe needs to compete

EUREKA HAS developed in the past year from a vague French-inspired response to the US Star Wars project into a Europe-wide programme of industrial collaboration in high-technology, which will be formally blessed by ministers from 18 governments at a meeting in London today.

This remarkable turn of speed says much about the concern with which Europe's technological competitiveness is viewed from national capitals. It is also a welcome sign of the extent to which European countries accept that they can only hope to challenge the industrial superiority of the US and Japan by concerting their efforts.

Whether Eureka is the right approach, however, is debatable. Though its backers differ over some details of the programme, its broad aim is to stimulate joint development by companies in different European countries of products and services with well-defined commercial applications.

Eureka will have no funds of its own, but many governments are allocating national subsidies on a priority basis to companies involved in Eureka projects: Bonn, for instance, plans to pay three-quarters of the cost to West German companies of participating in 19 new projects.

The justification for such funding is that, without public money, Eureka would amount to precious little. Another view, however, is that many of Europe's weaknesses in information technology — where most of the Eureka effort is focused — stem from the long-standing reluctance of some larger electronics companies to accept commercial risk without lavish inducement from the public purse.

Lethargic management

Eureka is based on an apparently unquestioned assumption that more intra-European collaboration holds the key to a more dynamic industrial performance. The Airbus and Ariane space programmes are held up as signal successes for this approach, though less is said about Concorde and the Unidata computer fiasco.

Both Airbus and Ariane are in markets with few competitors which require long-term investments on a scale which even governments cannot afford on their own. But whether it is practical to apply the same formula on a blanket basis to fast-moving, intensely competitive markets such as micro computers and robotics is far less certain.

Eureka's official sponsors argue that, even if all the projects do not succeed commercially, once companies start working together they will generate increased pressure for the creation of a genuine common market. A nice idea in theory — but how realistic in practice?

The underlying assumption is that rigid trade barriers have been the main reason why Europe's high-technology companies have stayed out of each other's markets. This is true in telecommunications and defence, where nationalistic procurement policies prevail.

But the argument is far less valid in sectors such as semiconductors, general purpose computers, business software packages and computer-aided design systems. These European markets are largely open: the proof lies in the dominant positions achieved in all of them by US companies.

A much more plausible explanation of European companies' weakness is lethargic and introverted management. Unlike their American and, increasingly, their Japanese rivals, few of them have bothered to organise themselves and market their products aggressively on a Europe-wide basis.

Bold decisions

In these circumstances, it may be wishful thinking to imagine that if large companies in, say, Britain, France and West Germany collaborate to develop common products, they will automatically have an incentive to sell them in each other's home markets. The danger is that such arrangements will encourage the formation of cartels.

A crucial difficulty facing Eureka and other similar initiatives is that they seek to stimulate collaboration between European companies which, unlike their American and Japanese rivals, have not yet learned to compete against each other.

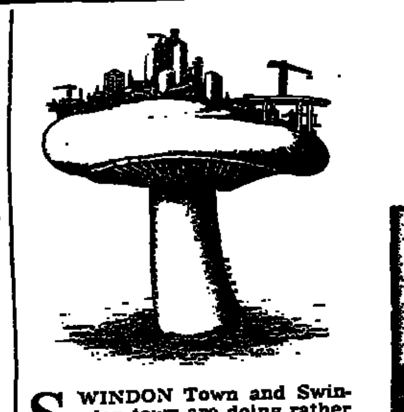
The result in many European high-technology sectors, notably telecommunications and semiconductors, has been the preservation of excess capacity fragmented into uneconomic sub-scale units. Rationalisation has often been impeded by inward-looking "national champion" policies.

Recently, some European companies have begun to try to break out of this pattern and to treat all of Europe as one market. They include Italy's Olivetti, which is pursuing an ambitious acquisition strategy; Philips of the Netherlands, which is struggling to streamline its production capacity; and European Silicon Structures, the novel pan-European Euroductor start-up.

Such actions require persistence, vision and a willingness to take bold decisions on the part of the companies concerned. In the longer run, Europe can hope to regain the initiative on world high-technology markets only if it has enough companies with the vigour and self-confidence to grow by their own efforts.

Europe's growth cities: **Robin Pauley** looks at Swindon

Riding a high-tech wave



Douglas Smith: a legacy of undeniable success

SWINDON Town and Swindon town are doing rather well for themselves. The former, a football team, has battled its way out of the bottom of the English league and is pushing itself up the Third Division towards what it hopes will be a return to its glorious days in the First Division.

The latter is a Wiltshire town which has seen its illustrious past as the centre of the Great Western Railway reduced to derelict sheds and disused sidings. But it is also one which has fought back without aid or subsidy to be described by Lloyds Bank as western Europe's fastest growing micro-economy.

Old and new Swindon sit rather uncomfortably together. Unlike the planned chrome and manicured landscaping of new-tech towns like Milton Keynes, large areas of Swindon, like Derby or Shildon, bear the hallmarks of those Victorian towns which prospered as the railheads for the grimy railways which were the arteries to the hearts and muscles of the industrial revolution.

The railwaymen's red-brick cottages, allotments, working men's clubs and pubs are all still there although the old GWR workers' hostel is now a railway museum, the GWR hospital is a community centre and the railway village is a Railway Village, the subject of the sort of conservation and preservation orders which mark bygone ages. The glossy-coated black GWR horses which pulled the GWR funeral hearse are long gone.

Swindon's railway era finally expired in March with the closure of British Rail Engineering and the loss of the last 2,000 jobs from an industry which once employed 17,000. The impact was dramatic, taking the town's unemployment average from well below the regional average of 12.2 per cent to above it.

But it could have been worse. The town had been preparing for the change from an economy based on a single steam-age industry since just after the end of the war. With considerable foresight the municipal "fathers" used ratepayers money to buy up large tracts of adjacent farmland around the town—land which is the basis of the town's remarkable growth story.

The next masterstroke appears to have been to hire Mr Douglas Smith as industrial adviser following the economic slump of 1977 when nobody showed much interest in Swindon's wealth of development land and the full potential of the golden western corridor along the M4 motorway—the new direct line to the heart of Britain's tech future—was not fully realised.

Mr Smith is an urbane chain-smoking businessman—a former Plessey executive and chairman of two business consultancies—with no experience of and little time for time-consuming public sector bureaucracies. Businessmen clearly like and understand him; councillors and their officers less so.

His theory was this: technology-based industries will grow; users of that technology based in commercial offices will grow; however tough the going gets the HQ, area HQ, and the central sales offices will be the last to close, whereas warehousing and peripheral offices are all too easy to walk away from.

Armed with a modest budget of £250,000 (now still only £500,000) from the council Mr Smith set up Swindon Enterprise, not in the town hall but in businesslike offices in a new town centre office block. He set his sights firmly on the US new-tech industries—English-speaking companies which might need a Common Market base. He had and has no assisted area or development subsidies to offer. "If you can't make a profit by yourselves stay away from Swindon," he says.

"Lecture tours across the US about the merits of Swindon—whose council was renamed Thamesdown in local government reorganisation so it has a name which no one anywhere can find on a map—proved expensive and fairly fruitless. But I realised that any company planning to come to Britain would first make contact with the property world. So I devoted a great deal of time to London property agents and advisers so they all knew everything there is to know about Swindon—land and office availability, 50 minutes by High Speed Train to London, one hour Heathrow, next to the M4, in the golden corridor but cheaper than the rival towns, surrounded by *stunning countryside with lots of old rectories for executives to live in.*"

The strategy started to work, helped by the search by some major City of London employers for more spacious and lower rated premises outside the congested square mile. Lowndes Lambert and Hill Samuel moved to Swindon, for example, followed later by National Employers Mutual.

The hunch that property agents would send people to Swindon to inspect ready built offices in speculative business parks of all shapes and sizes with high quality architecture and the sort of extravagant car parking facilities demanded by Americans proved right. Dayco Corp, Intel Corp, Johnson Control Systems, Micom, Texaco, National Semiconductors, Seeq technology, System Integrators, IBM-Rolm—the list grew each year and, as Mr Smith had planned, many set up their UK and/or European headquarters.

At the same time, a wide variety of British companies did the same thing ranging from the Bible Society, which sold its valuable prestige site in the City, to St Ivel-Unigate.

As providing space for the flow of incomers used up more and more of the council's carefully acquired land and as both land prices and restrictions on expenditure precluded further large-scale sales, Mr Smith tramped the streets of the square mile trying to convince City institutions to invest their money in Swindon. Today dramatically stylish office buildings, incongruous next to the dull car parks and dreary wind tunnel shopping malls endemic to much of urban Britain, are visible and profitable testament to the investments of Commercial Union, Sun Alliance, Royal London and, latterly, Prudential.

Private sector money is also now committed to some of the *newer business parks — 80 acres* at Windmill Hill bought by the Kuwaiti St Martins Investments and the Delta Business park which the local council and Taylor-Woodrow have on a 50-50 basis. In 1983 Renault decided it wanted a European and UK headquarters on one site but in different buildings. The result is a complex of spectacular architecture and 76,000 square feet of accommodation on the Westlea Campus.

The list goes on — Intel has its European HQ in Swindon, Burmah Oil has its world HQ in a parkland setting there.

But there are signs that Swindon may be forgetting the cardinal rule that such success must be perpetually sought and nurtured.

Not only is Mr Smith's contract not being renewed next year when he will be 65; the advertisement for his successor seeks a director of economic and social development which is not at all the same as the industrial adviser charged with getting bricks, companies and jobs into town.

And for the first time some serious marketing mistakes are being made. It is not like Swindon to have a client like Chase Manhattan eager to move in from London and then lose them together with 1,000 jobs. But that is what happened because Bournemouth gave them a sharper deal, Swindon refusing to offer any rent concessions.

Despite its success, Swindon will have to be careful not to price itself out of its markets. Industrial rents currently range from £2.50 to £4.25 a square foot plus £1.10 to £1.50 for rates. Office rents average between £4 and £9.50 per square foot plus £1.80 to £2.30 for rates. These figures are lower than competitors nearer to London—Bracknell and Reading for example. But they have increased steadily.

Nevertheless, Mr Smith leaves behind statistics of undeniable success. Between 1978 and 1985 around 25,000 and 27,000 jobs in industry (excluding services) were created; over the past five years average per capita spending power is up 25 per cent in real terms, one in six people in the local economy has a job working for invested US dollars, compared with a national average of one in 10. Crucially, more new jobs are now being created by companies which moved in during the past five years than by the new ones coming in and setting up. "That says it all," says Mr Smith.

A key test of one of Swindon's theories came with the sharp downturn in the micro-electronics industry. Pauline Hamill, vice-president of National Semiconductors division and general manager of the company's UK base moved the marketing, production planning, technical support and European warehousing from Munich to Swindon in 1984.

"Since then our industry has had a very rough time." But as Swindon was the HQ there was no threat to its future; it just did not expand. "We looked at Bracknell and Milton Keynes. We would have liked to be nearer Heathrow Airport than we are but Swindon won in the end because of the area's house prices. We consulted the staff who had to be relocated both from Munich and from our factory in Scotland and they preferred Wiltshire."

Whereas National Semiconductor is large and new to Swindon AMI Microsystems is small and has been there since 1977 when it also transferred its HQ out of Munich. Since then the company has become part of Austria Microsystems and the European HQ is now in Graz.

There are just 15 staff in Swindon now in the charge of Stuart Gruszka, director Northern Europe. "It's a great place to work, with London and the airport both within an hour. But there is an employment problem because the quality of the unemployed is generally low even at the secretarial and clerical level. If I were starting up in electronics I'd definitely come here or nearby because all the expertise is on the Reading-Bracknell-Swindon-Bristol corridor. Swindon wins because rents and housing costs are lower in this area although I wouldn't like to live in the town itself."

This reflects the view of many senior executives for whom part of Swindon's attraction lies in "The Beeches" or "The Old Rectory" in one of any number of picturesque villages in the Marlborough Downs and the Cotswolds, all within 30 minutes of work.

This is fine for married people or executives in search of peace and quiet and close proximity to the smart cafes and designer clothes shops of Bath and Cheltenham. "But there is a problem about Swindon in non-working hours for our younger employees and I am concerned about our young single graduates who are very frustrated by the lack of social life. There is an emerging electronics industry in Bristol and young stars may well go there because there is more energy to the town. I've already lost one," says Pauline Hamill.

"There is nothing wrong in Swindon that cannot be put right but the general facilities —shops, roads, social, hotels—just do not match the excellent work and office facilities."

David Roberts, retail group managing director at W. H. Smith, agrees. "They have done fantastic things here but what Swindon lacks is life and spark for the young singles."

The council recognises the point. Arthur Miles is the Labour leader of Thamesdown Council. He has been a local councillor for 28 years and was a Vickers toolmaker for 38 years. An old-school Socialist, his pride in Swindon's success in uncontainable. "We want companies to keep coming but we also want to be able to control the growth rate and we must start finding just what companies are willing to put into the town when they get here. Our great tragedy is that in spite of our success we still have all this unemployment and youth unemployment."

However, a new and unexpected source of prosperity may have opened up in the town. Swindon has never courted *Japanese companies* because they are renowned for seeking out assisted areas, grants and subsidies. But last year Honda brought itself to Swindon and bought 130 acres plus a 230-acre disused Vickers airfield at South Marston in a move shrouded in inscrutable secrecy but officially defined as a pre-delivery check and test facility — which would make it one of the world's most expensive.

But it is less than a mile from Austin Rover's body-pressing plant at Parsonage Farm and speculation that Honda's long-range sights are focused there have led to a stream of inquiries to Swindon from Japanese companies wanting to be suppliers. A new, redder sun may be rising over Swindon.

Pros and cons of predators

LAST WEEK APV, one of *several British engineering* companies which have become the targets for aggressive predators, fought off an unwelcome bid from Siebe. It persuaded its shareholders that, despite a patchy record, it had a credible strategy and a management team capable of implementing it.

Yet APV's success is unlikely to deter the so-called mini-conglomerates from continuing to look hard for undervalued assets in engineering and elsewhere. There is a widely held view that this takeover activity is bad, because it makes managers too preoccupied with short term results. But the predators can have a useful role in gingering up an industry and, as the APV case shows, they can be beaten off if the defending company's arguments are good enough.

It is certainly true, as APV pointed out, that bids of this kind are almost unknown *in* West Germany and Japan. But it does not follow that the absence of an active market in companies has contributed to the industrial success of those two countries. Necessary structural changes can be *facilitated* by the takeover process.

Management upheaval

Companies need to be under constant pressure to improve *their performance*. The threat *of* takeover if their share price falls is one source of pressure. Another is, or should be, the willingness of owners, principally the investing institutions, to intervene in a poorly run *business* and install new management.

It may well be that the UK has had too much of the first sort of pressure and not enough of the second. Takeovers after all, especially large ones, *involve* a great deal of management upheaval and are uncertain in their results. Too many companies, of which *Distillers is an example, have* been allowed by their owners to go through a long period of decline to a point where a takeover seems the only solution; earlier action to change the management might *have been preferable.*

It is also true that fast growing conglomerates can sometimes acquire a reputation for infallibility which is not justified either by their under*lying industrial record or* by past experience of similar companies. (The unscrambling of ITT, the classic US conglomerate of the 1960s and 1970s, should be a warning here).

Product strategies

Some of them are more interested in financial engineering than in cutting and shaping metal. While they are good at *cutting out fat, they may be less* comfortable with the time-consuming business of developing new products and building market share. The predators are valuable as gadflies and promoters of change; they do *not hold the key to the com*petitiveness of British industry.

A balanced view of their role will be easier to arrive at if three things happen. First, owners need to take an informed interest in the develop*ment plans of the companies in* which they hold shares. Second, the companies themselves need to be as explicit as possible about their strategies for new products and new markets. Third the conglomerates need to *be pressed* to reveal much more detail about what happens to acquired businesses in, say, the five years after takeover, reporting not only about return on capital, but also about investment in new products, *market* share and overall competitive position.

Men and Matters

Botham's new bumper

Peter May's phone wasn't exactly off the hook yesterday, but they were telling us at his home at Selborne, Hampshire, that he had gone for a quiet walk. "Having had so many media people breathing down *his neck he has gone to calm* down."

Who else but cricket's bad lad, Ian Botham, could have driven England's chairman of selectors out of house and home on a pleasant summer Sunday? *Meanwhile the cricket world* was buzzing over Botham's latest attack on the game's establishment.

Botham, banned by England and by his county club, Somerset, took a furious swing at the selectors in a speech at a Manchester cricket dinner — a typical selector was "someone they bring out of a loft, take the dust sheet off, give him a pink gin and sit him there.

He can't go out of a 30-mile radius of London because of the difficulty of getting back.

"You have a better chance of picking a Grand National winner than you have of making up your mind up what the selectors are going to do."

Our cricket man, former England player Trevor Bailey, comments: "There's a lot of things that can be said against the selectors — the treatment of David Gower, for example. But Ian, as usual, went about it the wrong way. I was talking to him only a few days ago and I advised him to concentrate on cricket and be careful what he said in future. He seemed to accept that. And incidentally, so far as I know, none of the *selectors drinks pink gin.*"

Bailey went on to describe Botham as "still a great player and I've got a lot of affinity with him." Another member of the old guard of players wasn't so charitable — Denis Compton was quoted as calling *Botham* "a yobbo who should never play for England again."

Peter May has already said that the Test and County Cricket Board will "consider what to do, if anything, after studying what he has said." This could happen this week and there is a possibility that Botham may find himself charged again with bringing the game into disrepute. Many inside cricket's inner circle suspect that the Manchester outburst could be the final nail in his coffin.

It is hard to know where he thinks he is going. Bailey reckons that he must have lost at least £7,000 in earnings in the short time since his suspension.

High drama

Weekend reports have once again been making a drama about the extramural activities of the chiefs of our two big subsidised theatres, Sir Peter Hall at the National and Trevor Nunn at the Royal Shakespeare Company, drawing attention to their freelance production work, which has made millionaires of both of them.

Hall feels particularly bitter about this new bout of carping. After well over a decade at the NT, and with last year's Rayner report giving him a fairly clean bill of management health, he considers his excursions into opera production at Glyndebourne, or selling off his NT plays as profitable transfers to the West End and Broadway, both stimulate him intellectually and ease the NT's hard-pressed finances.

But there are signs that the criticism, taken with the penny-pinching attitude to the arts by the present Government, are beginning to get him down. He is believed to have been offered the top job at the Metropolitan Opera in New York, and with opera taking up more and more of his interests he might well take it. First, he must secure the succession at the NT for his protege Ian McKellen.

Hall's percentages from the *Broadway success of Amadeus* and the like are nothing compared to the money Trevor Nunn has gained from Cats and Starlight Express and stands to gain from his latest productions, Chess and Les Miserables. But at least he makes no pretence of running the RSC single-handed. For years, he has worked in tandem with Terry Hands, who is the joint-director. With the opening of yet another RSC theatre at Stratford-on-Avon, the Swan, *now safely concluded,* Trevor Nunn may well feel that he has done his bit, and more, for the subsidised theatre.

"and I told the wife that if she didn't vote against divorce, then I'd leave her."

Print money

Museums in the UK, unlike their counterparts in the US, hate to sell off surplus stock. Even though they usually have basements full of unconsidered trifles, they know there is always a terrific row *if they* market items that have been bequeathed to them in perpetuity.

So the British Museum was taking a gamble when it sold 25 Old Master prints at Sotheby's on Friday. *Many were* Rembrandt's and they brought it £104,885. There were two reasons for the sale — all the prints were duplicate impressions and the money was needed to acquire one special print, a monotype by Castiglione, which is very rare and which had been offered to the museum by the Duke of Devonshire—at a price.

The relationship between the British Museum and the Duke is sensitive. *In 1984 he offered* them 71 Old Master drawings for £5m. The museum thought the price too high and the Duke sold them at Christie's for £21m. Many went overseas. When the Duke needed to raise some *more cash, and sold Old Master* prints at Christie's last December for £3.6m, he offered the British Museum a first option. Hence its keenness to acquire the Castiglione.

Jaws again

American Telephone and Telegraph, has faced new competition from upstarts in the long-distance telephone business like Washington-based MCI Communications. But now it faces a more fishy challenge.

MCI may be snapping at AT & T's heels, but sharks are munching its undersea fibre optic cables. Apparently *attracted by magnetic fields* around the cables, the sharks are responsible for "several outages" in the group's experimental fibre-optic cable near the Canary Islands.

"We knew there were sharks in the area, but we did not think they would go so deep," AT & T said. How did the engineers know sharks were to blame? When they dragged up the failed cable they found the teeth embedded in it.

The company's older submarine cables have proved largely shark-free because they used copper wire rather than glass-fibre. Copper wires do not generate so much megnetism.

Observer

As France's privatisation programme begins, British bankers are looking for business, and some French bankers are seeking new jobs

Foreign bankers circle over Paris

LONDON merchant banks and large Wall Street investment houses are indulging these days in a "summer beauty contest" as they call it in Paris. All are busily promoting their services and talents to try to cash in on the opportunities which the French conservative government's industrial and banking privatisation programme is likely to offer.

Kleinwort Benson shows to select visitors at its discreetly opulent town house in the well-heeled 16th arrondissement of Paris a list showing that it has been by far the most active merchant bank involved in Britain's privatisation programme. It is also forging a close but not exclusive association with Credit Commercial de France (CCF)—the large French state bank regarded as an early candidate for privatisation— to help strengthen its chances of playing a significant role in privatisation in France.

Morgan Grenfell, which has traditionally had links with the French Indosuez banking group, has just hired as chairman of its Paris subsidiary, Mr Jean-Pierre Souviron, one of the architects of French industrial policy during the Giscard d'Estaing presidency who has good connections with the new right wing government.

County Bank, the merchant banking subsidiary of National Westminster, is planning to send a full time representative to France in the autumn to follow closely developments on the French financial scene.

Most of the other leading British merchant banks have also been training their sights on France, sending representatives over with increasing regularity on the London-Paris air shuttle to see what business they can pick up. The British Embassy in Paris and the UK Treasury in London have also been promoting British banking services abroad. They have been steering French administration and company officials to seek privatisation advice from London merchant banks and recently organised a successful seminar in Paris on the British privatisation experience.

These initiatives have been all the more welcome for British bankers in the face of aggressive efforts by US banks and investment houses to sell their services to French companies and banks due to be privatised.

Of all the American banks, Morgan Guaranty with its long term presence in France and its imposing Paris headquarters in Place Vendome, is generally regarded as the best placed US financial institution in France. "Moreover, they are extremely discreet and low key compared to other American banks and did an excellent job at advising the French government over the Channel Tunnel," said a British competitor.

For international banks and merchant banks, privatisation offers four opportunities. The first two involve advising the government on one hand and companies and banks to be privatised on the other. The third business is helping to put together groups of shareholders to acquire a major or controlling stake in a newly privatised group.

The fourth role international banks can play in French privatisation is in the distribution, placement and underwriting of new equity abroad.

The competing banks are also keen to play a major role in the very first French privatisation deal. "There is tremendous prestige attached to whoever leads or is heavily involved in the first deal," said another international banker.

Investment bankers are divided over the opportunities offered in advising the French Government on privatisation. One school believes that there is only a limited role for foreign banks since the French Treasury, dearly wants to mastermind the whole privatisation programme itself.

Moreover, the French government seems to be extremely suspicious over the real motives of foreign banks. Although the government plans to offer about 15 to 20 per cent of the new shares of privatised companies to foreign investors, it is anxious to ensure it knows who is buying the shares abroad.

One element making life more difficult for British merchant banks is the worry of the French government over British institutional investors. "The French are anxious and sceptical about the genuine portfolio interest for privatised stocks particularly in London," said a British banker in Paris. "They were upset to see that it was the London institutional investors who were pulling out of French stocks during the recent short sell-off in the Bourse. Some French companies like L'Air Liquide and Pernod Ricard have also had bad experiences in placing shares in London. The volatility of British institutional investors has given London a bad reputation," he added.

But another school of British bankers believes that the French government is open and indeed seeking advice.

However, all bankers agree that no foreign financial institution will be able to lead or co-ordinate the whole privatisation of a French company or bank. French financial institutions are expected to lead privatisation projects. But many could be associated with foreign banks.

In this respect a bank like Lazard Freres, which is wholly French but can draw heavily from its sister banks in the UK and US, is in a good position.

But if international bankers and auditors see many appetising short term and longer term opportunities in French privatisation, they are also showing increasing signs of frustration over the delays in the implementation of the government programme. The timetable of privatisation has been steadily slipping and the Government appears in no hurry to rush through privatisations of companies and banks.

For the London and Wall Street investment banks the main concern is to find out what is happening on the privatisation front in France and to prepare to seize opportunities when they emerge. "Information is the name of the game," said a British merchant banker.

"It is very important to be known by the French authorities not only to secure business but also to find out what is going on," he added. "With about 65 companies to be privatised of which between 12 and 15 are major industrial or financial groups, you have to know where to concentrate and direct your marketing efforts. You must find out which company is doing well and which will be privatised first. And naturally you must keep an ear close to the ground to find out the latest gossip on the state chairmen who will survive and those who will be dropped."

Paul Betts

JEAN DEFLASSIEUX: Ready to quit with dignity

UK PRIVATISATION RECORD . . .

	Bank	Company	Amount (£m)
1	Kleinwort Benson	British Aerospace, Cable and Wireless, Associated British Ports, Enterprise Oil, British Telecom	5,709.4
2	Lazard	British Aerospace, Britoil	724.1
3	Schroders	Associated British Ports, Cable and Wireless	529.8
4	Rothschild	Amersham International, Britoil	309.8
5	Hill Samuel	Jaguar	293.5
6	Warburg	Britoil	274.3
7	Morgan Grenfell	Amersham International	35.5

. . . AND THE FRENCH AGENDA

	Profits *FFr	Turnover *FFr
CGE	1.185bn	71.9bn
Saint-Gobain	750m	66.7bn
Pechiney	732m	35bn
Rhone-Poulenc	2.3bn	56bn
Thomson	583m	59.4bn
Elf-Aquitaine	5.3bn	180.7bn
		Assets
BNP	1.77bn	950bn
Credit Lyonnais	1.2bn	842.7bn
Societe Generale	1.4bn	738.2bn
CCF	255.4m	160bn
Suez	1.52bn	300bn
Paribas	1.35bn	551bn

* All 1985 figures

Ready for the revolving door

"WHETHER I stay or go, I will remain our *homme d'affaires*," says Mr Jean Peyrelevade, chairman of Compagnie Financière de Suez, the French state-owned financial group and one of the plums on the right-wing government's privatisation list.

Mr Peyrelevade is one of the more than 60 chairmen of nationalised banks, industrial groups and insurance companies whose future will be decided in the next few weeks.

The government's choice, to be announced after months of discreet but intense jousting for the top posts, will reward or frustrate personal ambition among some of the biggest names — and egos — in the French business world.

More important on a wider level, the government, facing considerable temptations to organise a mass purge, will have to try to avoid damaging shake-ups in enterprises now preparing for the challenge of denationalisation.

Mr Peyrelevade, in his quiet way, is one of the most controversial of the present state chairmen — and appears one of the most likely to be asked to find another job.

Mr Peyrelevade arrived just over three years ago at the modestly elegant headquarters of the company that for nearly a century ran the Suez Canal. Even conservatives admit he has made a success of running the group.

But Mr Peyrelevade, a one-time aeronautics engineer who made a career with Crédit Lyonnais, the second biggest nationalised bank, is also a Socialist. He served between 1981 and 1983 as a chief adviser to Mr Pierre Mauroy, the first prime minister in the previous left-wing government.

Mr Peyrelevade was one of the main executors of the Socialists' 1982 nationalisations which the Right now proposes to unravel. The government also intends to sell off enterprises—like the three biggest banks and the Elf Aquitaine oil group—taken over after the war.

Mr Peyrelevade says he is "relaxed" about the future. His morale has been stiffened by the receipt of several preliminary job offers in business and commerce. His case however highlights a dilemma for the government as it prepares the personnel changes.

The task is somewhat paradoxical. The administration was elected in March on a platform of non-interventionist economic policies.

But Mr Jacques Chirac, the Prime Minister, together with a handful of senior ministers, now have the power to hire and fire the men at the helm of a financial and industrial empire which makes up a large chunk of the French economy.

The largest items on the denationalisation list, the banks and the Suez and Paribas financial groups (counting the state-controlled agricultural bank Crédit Agricole, to be privatised separately), include four of the world's top 15 banking institutions. The combined assets of banks to be denationalised amount to more than five times the capitalisation of the Paris stock exchange.

Mr Edouard Balladur, the Finance Minister and close ally of Mr Chirac (as the previous head of two subsidiaries in the nationalised Compagnie Générale d'Electricité group, he also knows what it is to be a company chairman), has promised there will be no witch hunts.

However, in a complex juggling act, the government will be making decisions on criteria which go far beyond questions of competence.

It will want to avoid the mistakes of the Socialists in 1982 when all the chairmen of the banks being nationalised (as well as those of the big three) were changed in an outbreak of mass blood-letting.

The government also has to respect some of the wishes of President Francois Mitterrand, who will want either to maintain or to find alternative top-notch jobs for protégés and friends such as Mr René Thomas, the chairman of Banque Nationale de Paris.

On an even more Byzantine note, the decisions will also take account of personal enmities and rivalries in the enterprises concerned, as well as promises made to reward allies and sympathisers during the Right's years in opposition.

One indication of the scale of the infighting is a comment from Mr Jacques Mayoux, the chairman of Societe Generale. He said earlier this month that a leaked report from the Cour des Comptes, the government's accounting watchdog, criticising him for doubtful deals in Brazil and Singapore may have come from someone with an axe to grind within the bank.

Mr Jean-Yves Haberer, the chairman of Paribas, is up against a clan of opponents both within and outside the bank who support the rival candidature of Mr Gerard Eskenazi, the former Paribas number two.

Mr Jean Déflassieux, the chairman of Crédit Lyonnais and a committed Socialist, is preparing with dignity for what appears to be an inevitable order to quit his mahogany-lined chairman's suite.

Mr Déflassieux, promoted in 1982, admits he would have remained number two or three in the bank but for his Socialist links and close friendship with Mr Mauroy.

He runs the bank with pride and passion. Critics say he is to close to the bank and its traditions, unable to take strategic decisions and to break through the power of vested interests who are blocking change.

He has none the less presided over a build-up in profits. Socialist connections notwithstanding, he had a furious row with Mr Pierre Beregovoy, the then Finance Minister, last August when the latter accused him (wrongly) of leaking news of a dispute over the government's wish to recall early a 15-year-old loan to the bank.

The uncertainties over changes at the top are already having a debilitating effect as managers and business partners wait for news of who will be in charge.

The chairmen to be appointed by the government in the next few weeks may also turn out to have only temporary control.

With a number of financial and industrial groups waiting in the wings to seize privatisation possibilities, the eventual heads of denationalised companies will be a matter for their new shareholders.

Mr Jean-Marc Vernes, the veteran financier and industrialist who is an ally of Mr Chirac, and who was ousted from his loss-making family bank, Banque Vernes, after nationalisation in 1982, pointedly says that the new chairmen will be "interim" appointments.

Mr Vernes, chairman of the Beghin Say sugar company now controlled by Ferruzzi of Italy, says he aims, in league with other institutions, to bid for both Suez and the Groupe des Assurances Nationales insurance company.

Mr Peyrelevade says uncertainties are starting to unsettle planning at Suez. But as a member of Mr Mauroy's team handling the nationalisation process five years ago, he sees the problem from the other side too. Then he had a big hand in unsettling the former patrons of groups taken over in 1982.

David Marsh

Letters to the Editor

Co-operative profits

From Mr C. Cattell

Sir,—It was pleasing to read William Dawkins' report (June 16) concerning Mr John Smith's proposals to permit workers' co-operatives to reinvest profits free of corporation tax. The Labour Party spokesman on trade and industry was highlighting the fact that workers' co-operatives suffer from a number of tax disincentives. In this context, Mr Smith's words are an appreciation of the arguments put forward by the Industrial Common Ownership Movement in its taxation submission to the Chancellor of the Exchequer earlier this year: arguments which have also found favour with the Alliance Parties.

Unfortunately, the Government's stance would seem to be that workers' co-operatives should abandon their principles in order to qualify for current fiscal incentives. This strikes us as a somewhat negative approach to a small but growing sector of the economy, and one which—by virtue of these principles — offers employment which is stable and locally based, and provides new opportunities to many unemployed people.

Your correspondent also reported that workers' co-operatives cannot raise share capital on the open market because equity may only be held by members of the co-operative, and that this is a rule "imposed" by ICOM. This statement is misleading in two respects.

The overwhelming majority of workers' co-operatives formed since the passing of the Industrial Common Ownership Act in 1976 have no equity capital at all. New registrations of workers' co-operatives are passing through the ICOM office at a current rate of around 17 per month, of which 97 per cent are registering as companies limited by guarantee. Assets are held collectively by the co-operative and not by individual members (hence "common ownership").

This structure is not *imposed* on co-operatives by ICOM; ICOM is primarily a voluntary association of workers' co-operatives and its policies reflect the views of its members.

There are good reasons why the common ownership model is preferred. Many of the new workers' co-operatives are being formed by unemployed people who do not have the financial resources to invest in their business. If money were placed as equity, one could soon have the situation where control of the enterprise was in the hands of outside shareholders rather than the members. Financing by loans affirms the co-operative principle of a limited return on capital. The growth in value of equity shareholdings out of proportion to the return to the employees of a workers' co-operative would be in breach of co-operative principles.

Inevitably it can be argued that workers' co-operatives are making things difficult for themselves by presenting to potential providers of finance a balance sheet which is loan-heavy because of the absence of share capital. The experience of many workers' co-operatives however is that with a sound business plan they can succeed. Certainly the track record of Industrial Common Ownership Finance (ICOF), the national revolving loan fund, indicates that workers' co-operatives present a better opportunity for a safe return on capital than other comparable small businesses.

Nevertheless, in an attempt to remove problems in securing finance, ICOM has put forward proposals to provide the same tax relief for investors in loan stock as for investors in shares —subject, of course, to the principle of a limited return on capital.

The co-operative movement has always considered that the creation of wealth should achieve more than just the furtherance of personal gain. It is thus appropriate that an Opposition spokesman on trade and industry should support proposals which will provide financial incentives for investments which will lead to more stable and satisfying employment, rather than those which will merely make money for the investor—which would seem to be the aim of the Government's own personal equity proposals.

Charlie Cattell,
Industrial Common
Ownership *Movement*,
7-8 The Corn Exchange, Leeds.

European air fares

From the Chief Executive, British Airways.

Sir,—Mr Lucking's contention (June 26) that recent British Airways profits have flowed from high European fares is easily tested. In the 1985-86 financial year, the overall operating profit ratio on our European routes was significantly lower than on our Atlantic routes.

Over the five years from 1981, the average figures were much the same. We earned nearly twice the profit per pound of revenue in the highly competitive low-fare Atlantic market than we did in the supposedly featherbedded European one.

The moral, as I suspect Mr Lucking knows perfectly well, is that high fares in Europe do not stem from greedy and inefficient airlines; they stem from higher costs and the reluctance of many European Governments to countenance a genuinely competitive environment in which airlines enjoy both the motive and the opportunity to raise their efficiency.

Wherever such an environment exists, British Airways has demonstrated both the will and the capacity to thrive. It seems a little hard to be accused, in effect, of monopoly pricing in the very field where we are probably trying harder than any other carrier to encourage the kind of competitive environment that Mr Lucking advocates.

On the issue of productivity, let me simply remind Mr Lucking of the facts. Since 1979-80, our average staff numbers have fallen from over 56,000 to under 39,000. In that same period, our productivity, measured in available tonne kilometres per employee, has risen by over 60 per cent.

Colin Marshall.
P.O. Box 10,
Heathrow Airport,
Hounslow, Middlesex.

Unleaded petrol

From the Chairman, Campaign for Lead-Free Air

Sir,—Your article on unleaded petrol (June 24) contained two statements which require further comment.

Britain has not committed itself to adopting the EEC vehicle emissions directive. Despite the recommendations of the House of Lords select committee on the European communities (environment), the UK Government has thus far refused to accept three-way catalytic converters for vehicles with engine capacities greater than 2 litres.

As far as medium-sized vehicles are concerned (1.4 to 2 litres) the emissions are less stringent, and could be met by leanburn engines fitted with oxidation catalysts. Again, however, the British Government has refused to give any undertaking that this part of the directive will be implemented

The only part of the directive which will definitely be implemented will be the requirement of new cars to run on unleaded petrol from specified dates (1989 for new models, 1990 for new cars).

The second point concerns the percentage of cars which are already able to run on unleaded petrol at 95 octane. This campaign has recently completed a survey of all UK car manufacturers and importers, which demonstrates that over 40 per cent of new cars can now use lead-free petrol. By 1987, the figure will have risen to 70 per cent, and by 1989/90 virtually all new cars will be designed to use unleaded fuel.

Consequently there is already a substantial market for this product which could be fully exploited if the Chancellor would fulfil the undertaking made in his Budget speech this year to introduce financial incentive to encourage the use of unleaded petrol.

(Dr) Robin Russell Jones,
3 Endsleigh Street WC1.

Pay levels in South Africa

From the Executive Secretary, Ethical Investment Research and Information Service

Sir,—Patrick Gillam (June 20) states that your report "UK companies pay South African blacks below target" misrepresented the facts when it quoted British Petroleum as paying only R198 to its lowest paid employees in South Africa, in comparison to the EEC target of around R525.

In making such an accusation, I would suggest that Mr Gillam places too much emphasis on what is acceptable, or current practice, in South Africa, and not enough on what the EEC code of conduct for companies with interests in South Africa actually says.

For example, he claims that the value of food and accommodation supplied to employees at the Elkeboom colliery should be added to the figure of R198. The British Government's reporting format, on the other hand, is quite specific that, in stating minimum wages, companies should exclude any such benefits in kind, although it does invite them to list them separately if they so wish.

Moreover, the British Government goes on to ask companies to compare their minimum wages with subsistence levels for families of average size. BP makes use, instead, of levels calculated for married men living in hostels, which are very significantly lower. The University of South Africa may recognise this practice, in the sense that it calculates the subsistence levels in question, but there is no support for it anywhere in the EEC code, or in the British Government's explanatory guidance to companies on the subject.

Mr Gillam would seem to be wrong, therefore, to imply that BP has the support of the British Government for its approach to minimum pay in South Africa, and wrong also to imply that BP meets the EEC code's minimum standards.

Peter Webster.
9 Poland Street, W1.

FINANCIAL TIMES
Monday June 30 1986

Terry Byland on Wall Street

Surprising rise from tobaccos

THE PAST fortnight has seen US fund and institutional investment *managers toning up their portfolios* for the end of the half year – trimming out the losers, where possible, and making sure that their trustees will find plenty of winners in the stock list.

With the stock market bumping against new highs once again, this may not be as easy as it sounds. *The Standard & Poor's 500 index* has risen by just less than 18 per cent since January, and although many sectors have comfortably outperformed the index, these were not necessarily the ones at the top of Wall Street shopping lists at Christmas 1985.

Who would have expected stocks in the toy industry, no more than a handful in total, to have gained 42 per cent despite the old argument that most products are sold in the *final two months of the year? Even* this put toy stocks only 10th out of 68 industry groups tracked by Standard & Poor's.

On the other hand, it is not too difficult to pick out the sectors which underperformed. Domestic oil companies, oil well equipment and services and offshore drilling, *all continued to fall, registering* double-digit percentage losses for the half year.

Gold issues, worried by the growing threat to the assets and existence of the mines in South Africa, but not compensated by any recovery in the bullion prices, showed losses of nearly 20 per cent. Steel issues remained weak as the industry continued to restructure itself.

Company	% above yr low	p/e
RJR Nabisco	120	15
PH Morris	106	14
US Tobacco	49	13

But a dip of 4.1 per cent in electronics stocks, subdivided into semiconductors and component manufacturers, provided a sharp reminder of the *uncertainty still* hanging over the high-technology industry. An upturn in orders, together with an agreement on Japanese imports, still hold the key to the outlook for semiconductors.

So much for the losers. But the list of winners has its surprises, too. Heading the list and outperforming all other groups with a gain of 62.7 per cent are the tobacco stocks, which *six months ago seemed* threatened with disaster as health liability suits proliferated.

The rebound in the stocks reflects two separate factors. The cancer liability suits have not yet proved the industry's undoing and the tobacco companies have continued, with great success, to diversify.

R.J.R. Nabisco has undergone a re-rating in the market since its acquisition of Nabisco Brands. *Ms* Jennifer Coury, of E. F. Hutton, believes the Nabisco deal will prove "only the first of a number of pertinent and sizable additions to R.J.R.'s family." This would shift the group's centre of balance significantly, with the non-tobacco share of earnings likely to rise strongly from its present level of 34 per cent.

At the same time, profitability on the basic tobacco business is growing rapidly as price rises are backed *by increasing efficiency in manufacturing.* Industry operating markets are around 20 per cent now – and only a disastrous turn in product liability suits could undermine the near-term future.

Much the same can be said for Philip Morris, which remains more heavily tobacco-oriented than R.J.R. but which struck out boldly with its acquisition of General Foods.

Morris has another advantage since, despite the federal Government's opposition to its planned sale of Seven-Up to PepsiCo, the board still intends to sell the soft drinks company. Seven-Up is believed to be still a minor lossmaker, but its sale could put around $500m *in Morris' balancesheet.*

With all these prospects ahead, *the fact remains that buyers of tobacco shares have been betting heavily* on the health liability question. Wall Street turned bullish on the tobacco major in March when the US appeals court ruled that Philip Morris was not required to make its internal files available to liability plaintiffs.

There are still about 60 health liability cases pending, and it would be a serious setback for the industry and the stock prices should one of these cases be found against a tobacco manufacturer.

But Wall Street's confidence was boosted again last week when a federal jury freed US Tobacco from liability for the cancer death of a 19-year-old snuff-taker. US Tobacco makes "smokeless tobacco" – snuff or chewing tobacco. But the court's decision sent R.J.R. Nabisco and Morris ahead strongly.

The strength of tobacco stocks over the first half of the year indicates that the share analysts believe that legal threats are now greatly diminished.

JARUZELSKI TELLS OF PLAN TO FREE SOME POLITICAL PRISONERS

Poland considers partial amnesty

BY CHRISTOPHER BOBINSKI IN WARSAW

THE POLISH authorities are prepared to free some political prisoners because of the waning influence of Solidarity, the outlawed trade union, General Wojciech Jaruzelski, the country's leader, said yesterday.

The amnesty proposal was included in a *four-hour* speech opening the first Communist Party Congress held since the 1981 crackdown on Solidarity. The party leader ranged over every aspect of the country's social, economic and political life in his address to more than 1,700 delegates.

The presence of Mr Mikhail Gorbachev, the Soviet leader, at the five-day meeting was being regarded as a mark of personal approval of Gen Jaruzelski's efforts to rescue the Polish party from collapse and rebuild its influence.

The Polish leader told the delegates that "anti-state groups," meaning Solidarity, were increasingly isolated and that this meant that "another chance could be given them to return to normal life." This move is believed to be aimed at improving relations with the West.

The number of political detainees reached 300 after a spate of arrests in the past few weeks after the detention of Mr Zbigniew Bujak, the underground Solidarity leader, on May 31.

Meanwhile, yesterday, some 30,000 people in the western Polish city of Poznan attended a church service to commemorate the workers' demonstrations in 1956, which spurred the anti-Stalinist liberalisation in that year. Police later prevented several thousand from marching under a Solidarity banner to a local monument.

On the economy, Gen Jaruzelski gave a boost to critics of the failure to implement economic reforms fully by repeating their call for the changes to be "radically speeded up."

In the run-up to the Polish Congress, various professional groups criticised the Government for failing to plan for a decisive effort aimed at levelling supply and demand and thus making producers responsive to market forces.

The Government, for its part, has argued that its more cautious approach, leaving rationing in place, avoids the risk of social unrest induced by rising prices. But yesterday Gen Jaruzelski said: "Either we reach equilibrium more quickly by decisively cutting subsidies and rationalising prices, thus achieving higher growth, or we stay with shortages in the shops and less chance of growth. The congress will decide."

● **Reginald Dale in Washington** writes: Mr Gorbachev has told President Ronald Reagan that he is willing to reach a compromise on reducing intermediate-range missiles, the US ground-launched cruise and Pershing 2 and the Soviet SS 20, according to US officials. The suggestion was made in a letter that Mr Reagan received last Monday, the New York Times reported.

Although Mr Gorbachev gave no details of a possible compromise, US officials describe his offer as "practical" and "positive." There was speculation that it might involve a formula under which some of the missiles on both sides might remain in Europe, with compensation for the US in exchange for Soviet SS 20s in Asia, a proposal which could be similar to an earlier US plan.

The US has proposed the complete abolition of the missiles on both sides. But Mr Reagan and Mr Gorbachev agreed at their Geneva summit last November to work for an interim agreement that would reduce rather than eliminate the missiles for the time being.

IEA calls for early decisions on expanding nuclear power

BY DAVID MARSH IN PARIS

WESTERN governments will be forced to increase reliance in the 1990s on oil and gas for electricity generation unless they take prompt decisions to build new nuclear or coal-fired power stations, according to the Paris-based International Energy Agency (IEA).

Presenting the 21-nation organisation's annual report on energy programmes in member countries, Mr David Jones, the IEA official in charge of policy analysis, said countries did not have "too long a breathing space" in making decisions on new electricity generating capacity likely to be needed after 1994-95.

The recommendation that governments should start planning now for a possible tightening of the energy market in the 1990s, in spite of the present slump in the oil price, forms the principal message of the IEA report.

The report voices concern that sustained low oil prices could dampen countries' willingness to make more progress in conserving energy, replacing oil by other fuels and developing new sources of energy.

Mr Jones said that the fresh fall in oil prices since the report was finalised at the end of last year made the IEA's warning more acute.

The boost to economic prospects *from cheaper oil, and a likely acceleration* of IEA countries' oil imports, could lead to a renewed squeeze on energy supplies in the early 1990s rather than later in the decade as had earlier been thought, Mr Jones said.

The report projects that oil imports into the 21-nation area – all the members of the Organisation for Economic Co-operation and Development (OECD) minus France, Iceland and Yugoslavia – will increase to more than 20m barrels a day in 2000 from last year's level of 15m.

This projection could be exceeded in the light of improved growth prospects caused by the latest downturn in oil prices, Mr Jones said. Most of the additional imports by the end of the century would come from the Middle East.

The report was drawn up on the basis of oil prices of more than $20 a barrel in the period to 1990, an assumption which has been challenged by this year's fall in average IEA import prices to around $18 to $19 in the first few months of the year, and by the much greater drop in spot prices.

Commenting on the impact of the Chernobyl accident, Mr Jones said a certain amount of the extra 80,000 MW of nuclear generating capacity expected to be built in the IEA countries up to 2000 was now at risk because of increased worries in the West over safety.

Under the main assumptions in the report, the share of electricity in total IEA energy consumption is expected to grow from about 16 per cent at present to 19 per cent in 2000. Based on assumed economic growth in the OECD of 3 per cent a year up to 1990 and 2.7 per cent afterwards, IEA countries' primary energy requirements up to the end of the century are seen as increasing by nearly 2 per cent annually.

This would increase the total to 4.5bn tons of oil equivalent in 2000, 20 per cent higher than the figure of 3.5bn for 1985.

About half the additional 80,000 MW of nuclear capacity in 2000 – the difference between projected capacity and that already in operation or under construction – is concentrated in Japan.

Non-IEA member France, with the most ambitious nuclear programme in the West, is not included in the statistics.

Mr Jones said IEA countries at present had a substantial surplus of generating capacity although most was in older oil-fired and gas-fired plants.

This spare capacity would be used up progressively – perhaps by the early 1990s – putting the onus on governments to set in motion long-term projects for new plants, Mr Jones said.

The projected increases in electricity demand could not be met by renewable resources or conservation, he said.

Alternative proposed to Baker debt plan

By William Dullforce in Zurich

A DEBT *RELIEF* plan that would provide the world's most heavily indebted countries with reduced interest rates, some debt write-down and new lending was put forward yesterday by Senator Bill Bradley, a contender for the Democrat nomination in the next US presidential election.

Senator Bradley proposed that the US President convene a trade relief summit annually during the first three years of the coming international trade negotiations. The new round of talks is due to be launched by trade ministers at a meeting in Punta del Este, Uruguay in September.

The summit would hold debt management talks simultaneously with the trade talks and would be an incentive for Third World countries to drop their resistance to the new trade round.

Senator Bradley announced his plan at a conference in Zurich of senior economic policy officials and parliamentarians.

The plan is an alternative to that already launched by Mr James Baker, the US treasury Secretary, which calls on commercial banks to provide $20bn and international agencies $9bn in new lending to 15 indebted countries.

The Baker plan would prolong the policies that created the debt crisis in the first place, Senator Bradley said. By emphasising new loans instead of interest rate and debt relief, it created more debt and would increase the already precarious exposure of creditor banks to a possible default.

Under Senator Bradley's plan creditors would negotiate annual relief packages with eligible indebted countries at summits chaired by the president of the World Bank. Large and small banks as well as governments would participate.

Senator Bradley's suggested goals for the annual relief packages to be offered should be:

● Three percentage points off interest rates for one year on all outstanding commercial and bilateral loans.
● A 3 per cent write-down and write-off of principal on outstanding commercial and bilateral loans.
● $3bn of new multilateral project and structural adjustment loans annually.

To be eligible for debt relief developing countries would have to agree to liberalise trade, take measures to reverse capital flight and encourage internal investment.

They would also have to pursue policies of economic growth which enjoyed broad domestic political support and keep debt management free from scandal.

Exchange rate volatility, Page 3

Opec studies new output sharing plan

Continued from Page 1

They are considered by those agreeing to the new ceiling agreement as not only compatible with worldwide consumption but also with restoring oil prices to a range of $17 to $19 barrel by the end of the year.

Algeria, Libya and Iran remained insistent that the limit should be as low as 14 to 14.5m b/d so as to force prices up to $28 as fast as possible. Gabon's position was unclear, but at *one point towards the end of last* week it appeared to have joined the minority.

With the three major dissenters committed to lower rates of output, non-participation by them would not necessarily make a new pact under a 17.9m b/d limit ineffective, majority delegates said. Sheikh Ahmed Zaki Yamani, the Saudi Arabian Oil Minister, suggested that the *majority could set quotas* for the minority even if they were *not* party to the pact.

Iran, however, has continued to threaten to produce an extra two barrels for every one conceded to Iraq under any accord. In practice, it would probably be physically constrained from doing

UK Cabinet to prepare way for early election

BY PETER RIDDELL, POLITICAL EDITOR, IN LONDON

THE BRITISH Government's legislative programme announced in the Queen's Speech to parliament this November will be lighter than in the past three years specifically to provide room for manoeuvre for a possible general election in autumn 1987.

The legislative committee of the Conservative Cabinet is now working on the assumption that all the proposed bills should become law by the end of July next year, without the usual spillover session in October when the House of Lords and House of Commons sit for two or three weeks to complete business.

The aim is to clear the decks by the beginning of the summer recess 1987 to leave open all the options on election timing.

Conservative Central Office is preparing to be ready for an election at any time from late spring next year onwards. The election can be called by the Government when it *wishes up to the final* legal limit in two years' time.

Within this period Mr Margaret Thatcher, the Prime Minister, and her close advisers still have an open mind on the state of the economy and of the opinion polls. But a number of ministers now believe autumn 1987 could be the most favourable date for the Tories.

To fulfil the aim of completing the next session's business by July 1987, the programme is having to be pared down slightly, possibly by two or three big bills.

On present plans, the main bills in the 1986–87 session will be concerned with:

● Water privatisation – to permit the piecemeal sale of 10 water authorities and a new licensing system.
● Criminal justice – an omnibus measure ranging from *prison* sentences to the conduct of fraud trials.
● *Intellectual property rights* – updating copyright law and including the protection of the design of spare parts and a levy on blank audio tapes.
● Scottish local government finance – the replacement of domestic rates (property taxes) by a community charge levy on every adult (*a forerunner to a post*-election bill for England and Wales).

A number of other measures are being considered. These include a primary health car bill, fire safety at sports grounds, consumer protection and housing management.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	27	81	Dubrovnik	S	26	79	Malta	–	—	—	Rhodes	S	25	77
Algiers	S	30	86	Edinburgh	S	17	63	Manchester	F	24	75	Rio de J'o	S	27	81
Amsterdam	S	25	77	Faro	S	23	73	Manila	S	33	91	Rome	S	26	79
Athens	F	26	79	Florence	S	30	86	Melbourne	S	11	52	Salzburg	F	24	75
Bahrain	S	35	95	Frankfurt	S	27	81	Mexico City	S	21	70	San Francisco	S	12	54
Bangkok	S	35	95	Funchal	S	21	70	Miami	S	25	77	Seoul	C	26	79
Barcelona	S	26	79	Geneva	S	28	82	Milan	S	30	86	Singapore	S	31	88
Beirut	S	28	82	Gibraltar	S	26	79	Montreal	S	17	63	Stockholm	F	19	66
Belfast	C	15	59	Glasgow	C	24	75	Moscow	F	24	75	Strasbourg	S	29	84
Belgrade	T	25	77	Guernsey	[illegible]	16	61	Munich	S	26	79	Sydney	F	15	59
Berlin	F	22	72	Helsinki	S	23	73	Nairobi	C	17	63	Taipei	[illegible]	[illegible]	[illegible]
Biarritz	C	19	66	H. Kong	F	31	88	Naples	S	28	82	Tangier	S	22	72
Bombay	F	31	88	Innsbruck	F	26	79	Nassau	C	30	86	Tel Aviv	F	27	81
Bordeaux	C	20	68	Inverness	F	18	64	New Delhi	C	32	90	Tenerife	S	24	75
Brussels	S	25	77	Islamabad	C	31	88	New York	S	25	77	Tokyo	R	16	61
Budapest	F	25	77	Istanbul	S	23	73	Nice	S	27	81	Toronto	S	18	64
B. Aires	C	17	62	Jakarta	S	32	90	Nicosia	S	35	95	Tunis	S	33	91
Cairo	S	30	86	Jersey	F	17	63	Oporto	S	18	64	Valencia	S	31	88
Cape Town	F	17	63	Jo'burg	F	15	59	Oslo	S	25	77	Venice	S	28	82
Caracas	C	27	81	Lima	C	18	65	Paris	S	30	86	Vienna	F	22	72
Casablanca	S	22	72	Lisbon	F	23	73	Peking	S	35	95	Warsaw	F	21	70
[illegible]															

Readings at mid-day yesterday: C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Cossiga opens crisis talks

Continued from Page 1

authority in a reformed administration.

Mr Craxi on Friday turned down pleas from some of his coalition partners to ignore the defeat.

Should Mr Craxi fail to get back on his own terms, the theory goes, the Socialists could refuse to co-operate with a new Christian Democrat-led government. They might calculate that this could work to their advantage in electoral terms.

The alternative explanation of Thursday's defeat is that Christian Democrats, boosted by their success in regional elections in Sicily last weekend, were trying to force Mr Craxi out of office to speed up his replacement by a member of their own party.

President Cossiga, who reserved his position when Mr Craxi presented *his resignation of Friday*, will today meet former presidents of the republic, *as is the custom, to* ask their advice on the crisis. Tomorrow *he will receive leaders of all the political parties.*

On Wednesday, therefore, he should be in a position to make a decision. It is possible that he will ask Mr Craxi to go before parliament and seek a new vote of confidence. But it is perhaps more likely that he will ask Mr Craxi to try to form a new administration.

THE LEX COLUMN

Summer lightning at Woolworth

As the Woolworth *blimp circles* above the City of London, the tussle for control of the company has been fought more privately than would have seemed possible only three months ago. In a bid that is essentially a debate about retailing skills, bid-related advertising has been off-limits. Instead, the battle has been lost or won in *face-to-face* presentations to institutional investors. *The future of Woolworth* may have been decided by such apparently irrelevant minutiae as the course of the River Ouse, which would seemingly prevent the delivery of refrigerators – or pie'n'mix confectionery, for that matter – by flowing past the back of Woolworth's store in York.

Optimistic

The remarkable fact is that Dixons has shown itself willing to pay more than £8 a share for Woolworth, 3½ years after it was refloated at an optimistic-looking 75p. And everyone knows that Dixons is not *offering more than twice* Woolworth's frequently revalued assets as the premium price for a premium business. The offer has consistently been based on the argument that Woolworth's High Street retailing business is as moribund as ever and that the space could be better used by Dixons.

The difficulties of making a judgment on this claim have weighed heavily on the core group of institutions who put in the Woolworth *management in 1982 or have since* bought large lumps of stock from the original backers. As a legacy of the consortium bid which bought Woolworth from its US parent, an unusually small number of funds still control the destiny of the company: effectively the question is being put to about half a dozen investors. Some of those *may find it* harder than usual to assess the trade-off between the *fiduciary duty to* provide capital gain and the inclination *to give* sitting managements the benefit of doubt.

Moreover, in financial terms the investment in Woolworth has been a rewarding one so far. Although there is room for quibbling about the succession of changes in the accounting basis on which Woolworth has reported its improving profits, there is no reasonable quarrel with the overall trend. By taking a grip on Woolworth's working capital – previously unmeasured as well as uncontrolled – and reforming some notoriously corrupt buying practices, it has *been possible to take* a lot of cash out of the business, to *reinvest it more profitably* out of town in Comet and B&Q.

Loyalty and gratitude can only be part of the story. The central question of Woolworth is, as ever, what to do with the main retail chain, other than liquidate the underlying property investment. Only with the comparatively disappointing figures that were *published this* spring did Woolworth bring forward a merchandising formula – known as Operation Focus – that could pretend to offer a strategy to recapture a defensible position in the High Street.

Although Operation Focus looks nice enough at Woolworth's model store in the Edgware Road in London, it is apparently not thought capable of succeeding in Holborn, opposite that major shareholder the *Pru: the Holborn store has actually* been closed during the bid defence. *It is Dixons'* criticism of Focus – one echoed by retailing analysts – that although the merchandise may have improved, and the average sale may rise by a few pounds, the strategy does not make Woolworth a store that is the obvious place to go for the varied items that it sells. Beaten on price for compact discs and *Parker* pens, *lightbulbs and* lime-green zips, even the focused Woolworth lacks the *strong* merchandising identity (like that of Marks and Spencer with food and clothing) which is generally believed necessary to pull the shoppers in.

Ramrod

Dixons' proposal – to ram branches of Currys and Dixons into 2m sq. feet of Woolworth's space and develop specialist ranges of home and recreational products to fill the remaining five or so million – is at least different. If Dixons were to get the returns on the enlarged and resited Dixons and Currys stores that it has enjoyed in recent resites to larger stores, it would be cramming five years' growth into the next three. If it could also establish competitive ranges in such items as garden furniture, *personal care appliances* and luggage, it might also succeed *in levering up* the average take and sales per sq. foot in the reduced Woolworth chain.

Those are big assumptions. Woolworth has argued that the high fixed costs of occupying the Woolworth space would cripple the Dixons electricals operation and might drive the combined whole into loss *if there were a cyclical drop in demand.* Itself based on some dubious *premises*, this criticism rather lapses into financial scaremongering: Dixons can reasonably be trusted to look after its own expansion. But it must be recognised that the remerchandising of Woolworths by Dixons is an even more untested quantity than the programme that is going on at present.

The net result is probably that acceptance of the Dixons proposal carries *greater potential rewards*, accompanied by somewhat higher risks, than allowing Operation Focus to run its course.

When it comes down to it, the big shareholders in Woolworth have made too much money since 1982 to worry about the disappearance of a bid premium now, and they can see that there is still a high gearing to recovery if Operation Focus succeeds. To *retain that exposure and* still keep an undiluted stake in the *dynamic and successful Dixons* – preserving two independent chances of outperforming the market – will probably seem the wisest course.

Dinosaurs

Like Distillers, the old Woolworth company was a corporate dinosaur waiting for extinction by takeover. *The safety-net provided by the* under-utilised and under-valued assets, the once-strong market position that could surely be revived by a more scientific approach: in each case, these were irresistible lures to any management that could raise the institutional support. But can lightning strike twice in four years at Woolworth?

CANADA 2

The economy

Recovery begins to falter

SHADOWS ARE starting to creep across Canada's robust four-year economic recovery.

One of the first signs of trouble last winter was a sudden run on the Canadian dollar which sent the currency plunging from 73 US cents in October to a record low of just over 69 US cents in early February, when massive intervention by Ottawa halted the slide.

Although the steepness of the decline was widely blamed on currency speculators in Chicago, the Canadian dollar's weakness reflected concern at the Federal Government's big budget deficit (equal to more than 6 per cent of gross national product) and the effect of weak oil and commodity prices on a resource-based economy.

Since then there have been other signs that the recovery may be running out of steam. Private sector investment—earlier expected to be one of the main motors of growth in 1986 and 1987—has been disappointingly weak. While business investment grew by 8.5 per cent in real terms last year the rate is expected to slow to around 3 per cent this year.

Interest rates are still high in real terms and the mood of large sections of Canadian business is dampened by heavy debt burdens. Mr Leo de Bever, head of Chase Econometrics Canada, says that "a lot of industries tend to be very risk-averse."

The country's economy's strength is now based mainly on consumer spending and new housing, though some early warning signals are flashing on these fronts too.

Housing starts fell from an annualised 204,000 units in April (seasonally adjusted) to 190,000 in May. Tax increases announced in the Federal Government's February 1985 Budget are expected to squeeze household spending in the coming months.

Any signs of a faltering US economy and a bottoming-out in North American interest rates also do not augur well for Canada. Exports to the US contribute about 20 per cent of Canada's Gross National Product (GNP).

According to the OECD, Canada's real GNP growth rate will slow from 5.6 per cent in the second half of last year—the highest of any industrial country—to 3 per cent between June and December this year. Growth in household spending will slip from 6.7 per cent to 2 per cent as the latest round of tax increases takes its toll.

Growth is expected to quicken again slightly from next summer (1987) as lower oil prices spur new business investment.

Canada's yawning Budget deficit was thrust into the limelight late last year when the US Congress passed the Gramm-Rudman Act, requiring a balanced budget in the US by 1991.

Interest rates in Canada are traditionally between 1 and 2 percentage points higher than US rates, reflecting Ottawa's proportionally bigger debt burden and the disadvantages of a resource-based economy. The gap widened to almost 5 percentage points last January as the Bank of Canada brought about an increase in domestic rates to break the fall of the Canadian dollar.

Business investment is expected to slow from 8.5 per cent last year to 3 per cent this year. Interest rates are still too high in real terms and many companies are carrying heavy debt burdens.

Mr Michael Wilson, the Federal Finance Minister, drew some of the sting from the deficit issue in his February 1986 Budget, which projected the first decline in 20 years in Federal Government spending and a narrowing of the Budget deficit from C$33.8bn in the year to March 31 1986 to C$29.8bn in the present fiscal year.

The Budget's revenue projections, based on an average oil price of US$22.50 a barrel in the year to March 1987, were over-optimistic. But Mr Wilson says he may tighten Government spending further later this year.

Experts differ on the likely impact of the oil price slump on the Canadian economy. The majority view for the moment appears to be that Canada will enjoy a net benefit.

Setbacks in the oil-producing provinces of Alberta and Saskatchewan, difficult business conditions for suppliers to the energy industry, and lower tax payments by oil and gas producers should be more than offset, so this argument goes, by the stimulus given to energy-consuming industries in Ontario and Quebec province.

Even the immediate impact on western Canada will be softened by heavier deficit spending by provincial governments, Alberta, the only province in Canada with a Triple-A credit rating, is expected to make its first foray into offshore capital markets later this year.

But the oil price plunge has some significant costs for the Canadian economy as a whole. The lower the price falls the greater those costs become.

The upstream oil and gas industry accounts for more than 10 per cent of total capital investment. Chase Econometrics estimates that, at an average oil price of US$17 a barrel, oil and gas companies will cut their spending from C$9bn last year to C$5bn in 1987. Chase predicts a further 20 per cent cut if the price drops to US$12 a barrel.

Canada is a net energy exporter. The fall in oil prices has thus contributed to a narrowing in the merchandise trade surplus from an annualised C$16bn in the last three months of 1985 to C$9.6bn in the first quarter of this year.

The overall terms of trade have been worsening since the end of 1983. The current account of the balance of payments—which was at record levels in 1984—slipped into deficit last year. Bank of Nova Scotia forecasts that the deficit will more than double to C$6.8bn this year but will narrow next year as import demand weakens.

In the longer term, low energy prices raise the spectre of rising oil imports as local demand increases but production in Western Canada declines.

The drop in oil prices has not yet had as dramatic an impact on inflation in Canada as it has in some other countries. Refiners have widened their profit margins, passing only some of the benefit of lower raw material costs on to consumers; and the decline in the Canadian dollar, a hiccup in interest rates earlier this year, higher sales taxes and a jump in housing costs have for the time being offset the benefits of lower oil price.

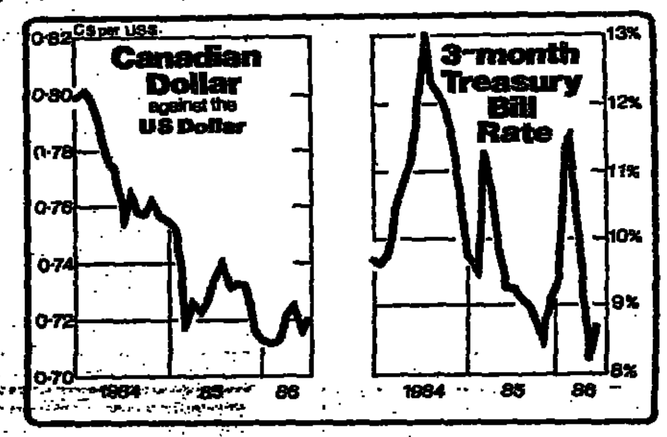
Consumer prices are currently rising at an annualised rate of 4 per cent, little changed over the past year.

While the economy may have scope for further growth without any serious risk of unleashing inflationary pressures, Canada's inflation rate is now well above the US rate. That has reinforced a widespread view that, without official intervention, the outlook for the Canadian dollar remains bearish.

Since Ottawa's determined intervention in the foreign exchange market last February, backed by a C$1bn foreign bond issue and drawings on standby credit lines, the Canadian dollar has briefly climbed above 73 US cents. But it has begun to slip again in recent months.

Pessimists forecast that the Canadian dollar may drop to 68 cents by mid-1987. Mr Lloyd Atkinson, Bank of Montreal's chief economist, predicts that political pressures to hold down domestic interest costs in the face of rebounding US rates will be another factor depressing the Canadian dollar later this year.

The Bank of Canada has been concerned in the past about the inflationary consequences of a cheaper dollar. Ottawa's present priority appears to be to moderate any decline. According to Mr de Bever at Chase Econometrics, "the central bank is unlikely to use interest rates for any prolonged period to protect the exchange rate."



Bernard Simon

Foreign investment

Federal agency gets to work

THE AGENCY Investment Canada, just one-year-old, has gone a long way towards convincing foreign investors that the late and unlamented Foreign Investment Review Agency is dead and that Canada is, once again, in one of Prime Minister Mulroney's favourite phrases, "open for business."

The new body won support from the provinces and the private sector for major presentations in Europe and Asia this year. It has had encouraging responses from many countries, including West Germany and Japan, says Mr Paul Labbé, IC's president.

The change in policy which it represents has helped to win several large foreign-backed projects, but its impact on investment flows is not yet clear.

Investment Canada has not turned down any sizeable foreign investment proposal. But it could face a test with the British food group Allied-Lyons' plan to buy the distilling business of Hiram Walker Resources of Toronto.

Allied-Lyons and the Reichmann brothers, who own Hiram Walker, have begun litigation over the deal. If Allied-Lyons succeeds, it would have to submit the purchase to Investment Canada review. A final decision might be made at Cabinet level.

Investment Canada was born on July 1 1985 after six months of bitter Parliamentary debate which centred on charges that the new Mulroney Government was ready to sell out Canada to foreign business interests. But once the Investment Canada Act was passed, and the new agency had replaced FIRA, the sniping ceased.

Investment Canada's mandate is to promote Canada "as a safe and profitable place to invest." Its first task was to change the belief abroad that Canadian investment rules were too restrictive.

It has spread the word that foreign investment is welcome if it creates jobs, improves the country's technological base, increases exports and enhances competitiveness.

Some exceptions remain, including cultural industries such as book, magazine and newspaper publishing, film production and distribution—and financial services, where other Federal or provincial laws impose specific ownership limits.

Investment Canada also works closely with the provinces to spread investment across the country. It tries to match the economic advantages of each province with the needs of individual foreign investors.

FIRA came into being in 1974 largely in response to nationalism in Ontario directed at the owners of American branch plants. It was never accepted in the West, in Quebec or in the Atlantic provinces. On the same evening the prime minister at the time, Mr Pierre Trudeau, announced the creation of FIRA, Quebec premier Robert Bourassa was telling a New York business audience that his (mainly French-speaking) province wanted all the foreign investment it could get.

But times changed. Foreign ownership, and new foreign investment too, declined markedly in the aftermath of the 1979 energy crisis, the 1982 recession and the Trudeau government's contentious National Energy Programme. During its last two or three years of its existence, FIRA appeared to have lost its spirit and rubber-stamped almost every application.

Under FIRA's rules, foreign investors had to file detailed applications for acquisitions of Canadian businesses with assets of C$250,000 or more, or for the creation of any new business in Canada.

In all cases, foreign investors had to show that their proposals would provide "significant" benefit to Canada. The cabinet, which decided on all applications no matter how small, was not bound to give reasons for its decisions.

Investment Canada retains review powers but in a much narrower and simpler form. Simple notification of proposals is sufficient, and most investments by non-Canadian are not reviewed.

Only acquisitions of Canadian businesses with assets of C$5m or more are reviewable, as well as indirect acquisitions of Canadian businesses with assets of C$50m or more stemming from changes in control of the parent company. The minister of regional industrial expansion is now responsible for the review process.

A proposal being reviewed must now merely show "net" benefit to Canada, meaning that it must have a favourable impact on economic activity, allow participation by Canadians, help productivity, competitiveness, and access to markets—but not reduce competition.

Mr Labbé says that the review process has been reduced to about 35 days, except in special circumstances. With the exception of investments in cultural sectors, a proposal is automatically deemed to be approved if it is not rejected within 45 days.

The more relaxed policy has ended a long-simmering feud of submission. between Ottawa and Imasco, the tobacco, drugstore and financial services group, 44 per cent-owned by BAT Industries of the UK. Imasco finally won official status as a Canadian company, enabling it to effect takeovers in Canada without review.

The Liberal Government led by Mr Trudeau maintained that Imasco, though operated by Canadians, was not fully autonomous because of the BAT holding. Under the old FIRA Act, its investments in Canada had to be vetted.

Imasco argued that it did no reinvest the profits of its large tobacco products business in Canada for the benefit of Canadians because the time taken for official review of any diversification move precluded an effective takeover bid. According to the company, the BAT investment was entirely passive.

Canadian status allowed Imasco to buy Genstar Corporation's services subsidiary, Canada Trust, earlier this year at a cost of around C$1.8bn. Nonetheless, the Government has placed several restrictions on the deal to discourage Imasco from using Canada Trust to further the interests of its tobacco, drugstore and other businesses.

Investment Canad escaped embarrassment this spring over the sale of Prentice-Hall Canada to Gulf and Western Industries of the US. Gulf and Western took control of the Canadian subsidiary indirectly when it bought Prentice-Hall in the US in December 1984.

After a year of fierce controversy, the Government came to grips with the case by allowing the acquisition to go through on the grounds that it was made before a restrictive new policy on foreign ownership of book publishing companies was announced.

With foreign-controlled publishers having well over 60 per cent of the Canadian educational book market, the Gulf and Western Prentice-Hall case heightened concern about the future of Canadian book publishing and other cultural industries.

Last July the Government announced a guideline to prevent foreign companies from buying a Canadian publishing company unless they give up control at fair market value within two years.

Protection of cultural industries remains one of the most sensitive areas of foreign investment and trade policy. Because of the eagerness of many US book and magazine publishers to expand their Canadian interests, rules for protecting the cultural industries are likely to be one of the most delicate issues in the recently-begun free trade negotiations with Washington.

R. G. Gibbens

Mr Michael Wilson, Federal Finance Minister

Finance Minister shows his strength

Profile: Mr Michael Wilson proves himself as one of the main pillars of the Progressive Conservative Government in Ottawa

FINANCE is likely to be one of the few portfolios left untouched by a major Federal cabinet shuffle expected later this summer.

After a shaky start in the early days of the Tory Government, Mr Michael Wilson has become one of Mr Mulroney's most dependable ministers.

Helped by a more assertive style and by the strong economy, Mr Wilson has managed to put behind him the humiliation he suffered last year when he bowed to public and opposition pressure to withdraw budget proposals to de-index old age pensions.

A strong public relations effort—including speeches to trade unionists, patrons of a Nova Scotia art gallery and high school teachers in Newfoundland—enabled him to win public acceptance of the much tougher February 1986 Budget, which included tax increases and public spending cuts.

Mr Wilson's stature was further boosted last May by Canada's admission (with Italy) to the group of five, the informal and occasional meeting of finance ministers of leading industrial countries.

The domestic political spin-offs of inclusion are significant. As Mr Wilson puts it: "People in Canada recognise that we are now in a very important forum of discussion with other finance ministers. That brings with it some responsibilities."

Lower oil revenues have skewed Government finances since the February budget, more than offsetting the benefits of lower interest rates. Mr Wilson says that "we may have to take some action sometime through the year to put that right." A further squeeze on spending is thus possible.

He says that the budget forecast of a 3.7 per cent real gross national product growth rate this year remains within reach, but he is concerned that the advance is not evenly spread. The surging Ontario economy—based on oil-consuming manufacturing industry—may create labour and materials shortages which could ripple through the entire country in the form of higher prices.

"It seems crazy," he says, "that we have one part of the country doing extremely well, and because it's doing so well may cause problems that other parts are less able to cope with."

Before entering politics eight years ago, Mr Wilson, now 48, worked briefly at two London merchant banks, Morgan Grenfell and Baring Brothers, and was later executive vice president of a leading Toronto securities firm. He was International Trade Minister in the short-lived Conservative Government led by Mr Joe Clark (now Foreign Minister) in 1979-80.

With this background, he has been one of the Mulroney Cabinet's strongest proponents of more market-oriented policies.

Mr Wilson asserts that "we want to open up our markets to a greater extent, expose ourselves more to external forces and toughen up the competitive position of Canadian industry."

He applies this philosophy to official exchange rate policy, noting that "we want the dollar to be a reflection of the economic strength of the country." He thus dismisses US concern that Ottawa has deliberately held the Canadian dollar down to improve Canadian competitiveness.

"To the extent that we have taken overt action in the market it has been to support the dollar rather than push it down," he says. "My preference would be stability, because that will lead to lower interest rates."

Bernard Simon

Federal politics

Tories lose favour in polls

THE STORY of the Progressive Conservative Government's first two years in office was summed up in Prime Minister Brian Mulroney's extended trip in May to Japan, China and South Korea.

While the Prime Minister was working hard to cement relations with three of Canada's key trading partners, his achievements were overshadowed at home by a raging controversy over a relatively minor conflict-of-interest allegation involving the Industry Minister, Mr Sinclair Stevens.

A similar pattern has repeated itself several times since the Tories came to office in a landslide election win in September 1984. The Government's mistakes — many of which began as quite minor incidents — loomed larger than its achievements.

The Tories' sagging position in opinion polls is evidence that voters give the Mulroney Government little credit for its efforts to reverse some of the questionable policies pursued by the Liberals, who held office for 21 years with only a brief Tory break in 1979-80.

Those who expected a Thatcher or Reagan-style revolution from a Canadian Conservative Government were bound to be disappointed. Ideology plays little part in voters' loyalties, and governments invariably find that the centre of the political stage is the safest place to be.

Most Canadian politicians, and Mr Mulroney more than many others, make opinion polls the guiding star of their policies.

Despite these constraints, the Tories have gone some way towards tackling the country's most pressing economic and social issues. In two areas — foreign investment and energy — the Mulroney Government has largely dismantled the nationalistic controls put in place by the Liberals.

Barriers to foreign investment have been significantly lowered. Oil prices have been deregulated, and a start has been made on loosening controls in the transport sector.

Mr Mulroney has taken a considerable political risk by starting free trade talks with Washington (a subject discussed in more detail elsewhere in this survey).

The Tories have also begun gingerly to come to grips with a disconcertingly high budget deficit, albeit by putting the emphasis on higher taxes rather than lower public spending.

Mr Mulroney has so far kept the usually choppy relationship between Ottawa and the 10 provinces on an even keel, despite the emergence of Liberal governments in Ontario, Québec and Prince Edward Island.

The Prime Minister and the new Liberal premier of Québec, Mr Robert Bourassa, are moving towards delicate negotiations aimed at putting Québec's signature to the 1982 Federal constitution. Success would enhance the reputations of both men.

Another Liberal premier, Mr David Peterson of Ontario, has expressed reservations about Ottawa's free trade talks with the US. But his reservations have fallen short of outright opposition.

On the liabilities side, the Government has lost four ministers. A fifth resigned but was later reinstated after the police dropped charges of overspending in the 1984 campaign.

It has suffered several humiliating climbdowns, leaving the impression that it is guided not by conviction or principle but by the pressures of opinion polls, media comment and lobby groups.

Several of the five ministers who resigned — including Mr Stevens — did so after their actions had been stoutly defended by Mr Mulroney and other Cabinet colleagues.

The Tories have raised doubts about their future electoral prospects by failing so far to consolidate their support in Quebec, where they unexpectedly swept 59 of 75 constituencies in 1984.

The big Quebec caucus has itself proved unwieldy. A combination of experienced politicians and a large number of newcomers has presented problems ranging from demands for more Cabinet representation to inadequate constituency organisation.

At the same time, Mr Mulroney's apparent preoccupation with his home province —Quebec —demonstrated by favours such as Government subsidies to Montreal's petrochemicals industry and new navigational equipment for remote airports—has irritated caucus members from other parts of Canada.

Mr Mulroney has blamed the Press for many of his problems. While the relatively gentle nature of Canadian politics means that trivial incidents are often blown up into major controversies, the Government might have avoided some setbacks by showing more astuteness in its short-term tactics and longer-term strategy.

The Tories are still less than half way through their five-year mandate, so there is still time to put things right. Before the Sinclair Stevens affair, signs had appeared that the Government was rethinking its tactics. Cabinet ministers took a firm stand on provincial participation in the free trade talks and stuck to the February 1986 Budget proposals.

The Government is now examining ways of reopening the debate on the expensive system of universal social programmes. Last year's outcry over a proposal to de-index retirement pensions forced it to retreat from earlier plans to start linking benefits to incomes.

The Tories can draw some comfort from the disarray in which the Federal Liberals (the "Grits," as they are popularly known) find themselves. Their leader, Mr John Turner, who was Prime Minister for two months between the retirement of Mr Pierre Trudeau and the September 1984 election, has had difficulty building up a loyal following within the Liberal party.

The party as a whole has failed to present a coherent policy on US-Canadian free trade. Some of its leaders support free trade, some oppose it, and others give the impression of not knowing where they stand.

If the Liberals—regarded for most of this century as Canada's "natural ruling party"—are to have a real chance of returning to office in the next election, they will need to clarify their views on free trade.

As things now stand, the trade issue will almost certainly dominate the campaign.

Bernard Simon

Two North American leaders of Irish ancestry: President Reagan and Mr Brian Mulroney, Prime Minister of Canada

Privatisation

Storm over sales of Crown assets

THE MULRONEY Government came to office in 1984 with a commitment to privatise a maze of federally-owned enterprises with assets of more than C$50bn, accounting for about 5 per cent of gross national product.

Soon the new Conservative Government was pointing to the spectacular success of British Telecom's public stock issue, suggesting it might become a model for privatisation in the name of efficiency and competitiveness in a new world trading environment.

A Cabinet committee was formed under Treasury Board chief Robert de Cotret. The US investment bank Salomon Brothers was hired to advise the Government. Former Industry Minister, Mr Sinclair Stevens, became the chief promoter of privatisation across Canada.

Despite a favourable economic climate and the strongest equity markets since the 1973 Energy Crisis, however, the Mulroney Government has found it difficult to maintain the pace of privatisation.

Some projects have been politically risky while others have brought out inter-provincial rivalries or exposed potential conflicts in vital areas of public policy.

Mr Stevens has had to give up his job in the face of a political storm and decisions about the future of Federal Crown corporations have been delayed again and again, often because of dissension within Government ranks.

Some sales have been completed. Other public corporations have been restructured at the Federal level, a Crown corporation building two national museums in Ottawa was taken into the Public Works Department because cost overruns were getting out of hand. Northern Transportation Company, which moves supplies to Northern and Arctic communities, was sold.

Canadian Arsenals was sold to the Montreal engineering group SNC which already owned an ammunition maker. The Federal holding in Canada Development Corporation, a pharmaceutical, energy and office equipment conglomerate, was also sold.

Perhaps the most conspicuous privatisation move was the sale of De Havilland Aircraft of Canada to Boeing of the US for around $90m. While no one in the aircraft industry seriously questioned the strategy, the deal raised political cries of a "sell-out to the Americans," thus complicating the Government's search for buyers for other state-owned assets.

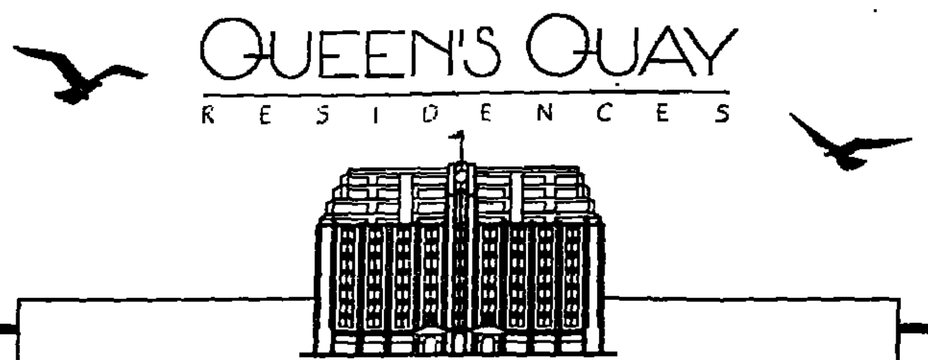
Mr Mulroney is now half-way through his mandate and is preoccupied with the free trade issue. But is still committed to the sale of Canadair, the aircraft and defence products group in Montreal; Teleglobe Canada, the highly-profitable overseas telecommunications monopoly, and Eldorado Nuclear, which mines and processes uranium. The government has also raised the possibility of at least partial privatisation of Petro-Canada, the largest retail gasoline distributor in the country; and later Air Canada, the national airline; and Canadian National, which operates one of the two transcontinental railways.

Canada Development Corporation had become a vast holding company after being founded by the former Liberal Government to buy back parts of Canadian industry from US interests. Disposal of the federally-held shares through a secondary offering was not difficult and—despite some questions about the price—not politically controversial. This method may be used again.

The sale of the aircraft manufacturer Canadair is going ahead at a snail's pace. Bombardier, the snowmobile and transport equipment maker, is a leading contender with Canadian Aerospace Technologies in a consortium including the West German industrialist Jutus Dornier and Canadian interests.

Another Canadian group has asked for further delays so that it can enter a bid, but the Government replied testily that Canadair has already been on the block for 18 months and it cannot wait any longer.

R. G. Gibbens



Deregulation in banking

Pressures mount for change

THE TORTOISES among the financial community in Toronto and Montreal may be slower than the hares of London and New York in breaking down regulatory barriers between them, buying chunks of equity in each other and expanding into new business areas.

But in their steady, deliberate way, Canadian financial institutions are training hard to catch up later.

Some Canadian institutions still strongly resist the erosion of the four traditional "pillars," consisting of banks, trust and mortgage companies, insurers and securities firms (known in Canada as investment dealers).

The chairman of the Investment Dealers' Association, Mr Francis Lamont, said in June that the entry of other institutions into fields now reserved for the securities industry—notably corporate underwriting—would be "the zoo with the bars down."

Federal Government moves towards deregulation are on ice pending a report by Supreme Court Judge Willard Estey on the collapse of two small Alberta banks last year.

Judge Estey's findings, which are likely to urge sweeping changes in the duties of bank directors, auditors and regulators, are expected later this summer. Ottawa has drawn up various options to enable it to respond quickly to suggested reforms.

Meanwhile, proposed legislation is still under discussion in Ontario to stimulate competition in the provincially-regulated trust and investment dealing industries.

These deliberations will almost certainly result in foreign securities firms being allowed to take a bigger equity stake in Canadian investment dealers than the present 10 per cent maximum and may give them greater freedom to set up full-service Canadian subsidiaries.

While the authorities ponder their next moves, the more far-sighted bankers and financiers are seizing the initiative. According to one foreign banker, "the realities of the market are far ahead of the regulators."

Several recent developments illustrate how pressures for change are building up:

● Some of the 57 foreign bank subsidiaries operating in Canada have become increasingly active in the investment banking business, circumventing the ban on corporate underwriting by channelling business through foreign affiliates, usually in London.

The activities of Citibank, Bankers Trust, Chase Manhattan and others (as well as US and Japanese securities firms with no direct representation in Canada) have roused the Canadian banks, which are forbidden from underwriting domestic corporate issues.

Canada's six leading banks*

	Net income (C$m)		Return on assets (%)		Loan loss provision (C$m)	
	1986	1985	1986	1985	1986	1985
Royal	125.1	100.4	0.53	0.45	200.0	157.0
Bank of Montreal	85.1	78.0	0.41	0.41	136.7	103.4
CIBC	74.3	81.3	0.38	0.45	157.0	122.0
Bank of Nova Scotia	80.0	66.5	0.53	0.46	101.4	74.3
Toronto-Dominion	101.4	107.5	0.73	0.91	90.4	63.3
National	44.1	35.5	0.69	0.70	52.1	31.6

* Three months ended April 30.

Besides redoubling their lobbying efforts for a change in the law, several of the Big Six banks are beefing up their international capital market operations. Their aim for the time being is to match the competition in London and New York, but they also have their eyes on lowering of domestic barriers.

● Royal Trust earlier this year scored a coup by buying Dow Financial Services, the international banking, stockbroking and investment management group previously owned by Dow Chemical.

The acquisition reflects the rapid growth and diversification of the trust companies, whose business, based primarily on mortgage lending and fiduciary services, has expanded into almost all spheres of banking.

Canada Trust, the biggest, has been able to boast since its merger with Canada Permanent earlier this year that it is in the same league as the Big Five banks. The trusts are still allowed to set aside only 7 per cent of their assets for commercial loans, but a higher ceiling is among the measures now before the Ontario provincial government.

● Wood Gundy, doyen of Canadian investment dealers, announced a merger last month with Gordon Capital Securities, the maverick firm whose aggressive, innovative and controversial deals have shaken the Canadian financial establishment to its core in the past two years.

The new firm, with capital of C$250m and 35 offices worldwide, is a clear sign that some investment dealers recognise that the protective barriers around them are crumbling.

At the same time as the deal was announced, the US investment bank Goldman Sachs was opening its first office in Toronto.

Besides unpredictable changes in the regulatory climate, Canadian banks face the challenge of the slump in oil prices. The impact on their 1986 results will be cushioned by a recent decline in interest rates and by the ability of hard-pressed oil and gas producers to meet debt-servicing commitments by selling off assets and other measures to conserve cash. That outlook for 1987 is murkier.

A sign of the banks' concern is the 34 per cent increase in loan loss provisions set aside by the six major institutions in the three months to April 30, compared with a year earlier.

Provisions are calculated according to a five-year moving average, but most of the big banks have raised their estimates of 1986 write-offs. Toronto-Dominion has classified its entire C$738m exposure to ailing Dome Petroleum as a problem loan.

Although energy problems may reduce earnings significantly, even the worst cases considered so far—including the collapse of Dome with debts of C$6bn—do not endanger the stability of any of the big banks. All have strengthened their capital bases in the past few years and have substantially raised their bad debt provisions.

Bernard Simon

Trade relations with US

Key election issue

WHETHER they succeed or fail, the free trade talks between Ottawa and Washington, which began in May, will have profound economic and political consequences for Canada.

Even Prime Minister Mulroney, not normally one to stick his neck out, predicted last month that free trade will be the overriding issue in the next Federal election. Historians will almost certainly judge the Mulroney Government by the success or failure of the talks.

Support for a free trade pact with the US has grown in the past few years as many Canadians, especially in the business community, recognise the dangers of being left out of a major trading bloc.

Canada's competitiveness in many markets has been eroded over the past 25 years by the formation and expansion of the European Economic Community and the European Free Trade Association, the system of preferences granted to developing nations and the dismantling of Commonwealth preferences.

Meanwhile, the strong recovery of the US economy and the decline of the Canadian dollar against the US currency has contributed to much closer trading links with the US, whose share of Canadian exports rose from 60 per cent in 1980 to 78 per cent last year.

The two countries are the world's biggest trading partners, with a two-way trade totalling C$165bn last year.

The recent surge of protectionism in the US has thus accelerated the search for secure markets. Free trade supporters echo the views of Mr William Mackness the Bank of Nova Scotia's chief economist: "It would be difficult to exaggerate the risks to Canada of being frozen out of any sizeable free-access market, particularly in a period intense international competition and rising protectionist sentiment."

Many Canadians see free trade as a threat rather than an opportunity, however. They fear that Canadian manufacturers will be swamped by bigger, more efficient US producers and that many US companies will close their Canadian plants and concentrate production south of the border.

The brewing industry is often cited as a case in point. While provincial regulations have fragmented Canadian beer production among three dozen breweries, the biggest US plants can singlehandedly supply the entire Canadian market.

Publishing, broadcasting and other "cultural" industries, which are protected by tax laws and local content requirements, also consider themselves vulnerable.

Agriculture is likely to be treated as a special case. It is not yet clear to what extent services, which make up nearly two-thirds of national output in each country, will be drawn into the negotiatians.

The precise costs and benefits of free trade are impossible to gauge in advance. Opponents have the advantage, however, of beeing able to point to specific industries — magazine publishing, farm products and textiles, among others — which rely on protection for their well-being. They can easily win sympathy for their case by pointing to potential job losses.

It is more difficult for free trade supporters to single out sectors which will benefit from easier access to the US market, or to console protected industries that the outlook may not be as dark as it now seems.

Mr Donald Macdonald, the former Finance Minister who has been one of the most vocal proponents of free trade, has summed up both the opportunities and the dangers by calling free trade a "leap of faith."

Ottawa has put together a 100-strong negotiating team led by Mr Simon Reisman, a tough but highly regarded former deputy minister of finance. The US team is led by Mr Peter Murphy, previously the US trade representative in Geneva.

The talks got off to a rocky start. An intense burst of last-minute lobbying by the White House and the Canadians was needed to persuade the US Senate to give the Reagan Administration "fast-track" negotiating authority.

By doing so the Senate has agreed not to dabble in the negotations as they proceed, but simply to approve or reject the final agreement.

The day before the trade talks opened in Ottawa, President Reagan angered and embarrassed Mr Mulroney by unexpectedly imposing a 35 per cent import duty on cedar shakes and shingles, two items used in house building. The Canadians subsequently retaliated by raising duties on a number of US products.

The US Commerce Department touched another raw Canadian nerve in early June by ordering an investigation into government subsidies on softwood lumber, Canada's fourth-largest export to the US with annual sales of C$4bn.

Canada's share of the US softwood market has soared from 18 per cent to 35 per cent in the past seven years.

These skirmishes have inevitably raised questions in Canada whether the US is serious about free trade talks. On the other hand, they have provided clear examples to Canada of the need for secure access to the US market.

Significantly, the latest controversies have hardened rather than diluted Mr Mulroney's commitment to free trade; and despite the sudden flare-ups some Doubting Thomases notably Ontario Premier David Peterson, appear to have shifted from outright opposition to a readiness to see what comes out of the talks.

Many hurdles must be overcome before a trade pact is drafted, let alone approved by both countries

Bernard Simon

Mr Jim Pattison is the British Columbian business man who master-minded Expo '86 with furious energy

Man behind Expo '86

WHEN Prince Charles and Princess Diana opened Expo '86 in Vancouver in May, a crowd of more than 50,000 rose to applaud the labours of Mr Jim Pattison, whose name has become synonymous with the world exposition.

Mr Pattison, the fair's chairman, has worked for five years without pay, driving himself (and those around him) close to exhaustion to ensure that Expo opened on time, under budget and to favourable reviews.

It has been, by common consent, an organisational tour de force.

The post of Expo chairman was supposed to be a part-time one, but Mr Pattison does nothing by half measures. He has devoted a full working week to the job, firing at least a dozen executives who did not measure up to his ideas of performance. When he got rid of the organisation's president he took that job on too.

British Columbians are asking themselves why Mr Pattison has devoted five years of his life to Expo. His own explanation—that he simply wanted to give back something to a community that has been unusually generous to him—strikes many as disingenuous.

Mr Pattison has no interest in politics, although members of British Columbia's business community suggested last May that he seek the leadership of the province's ruling Social Credit party as a successor to outgoing Premier William Bennett.

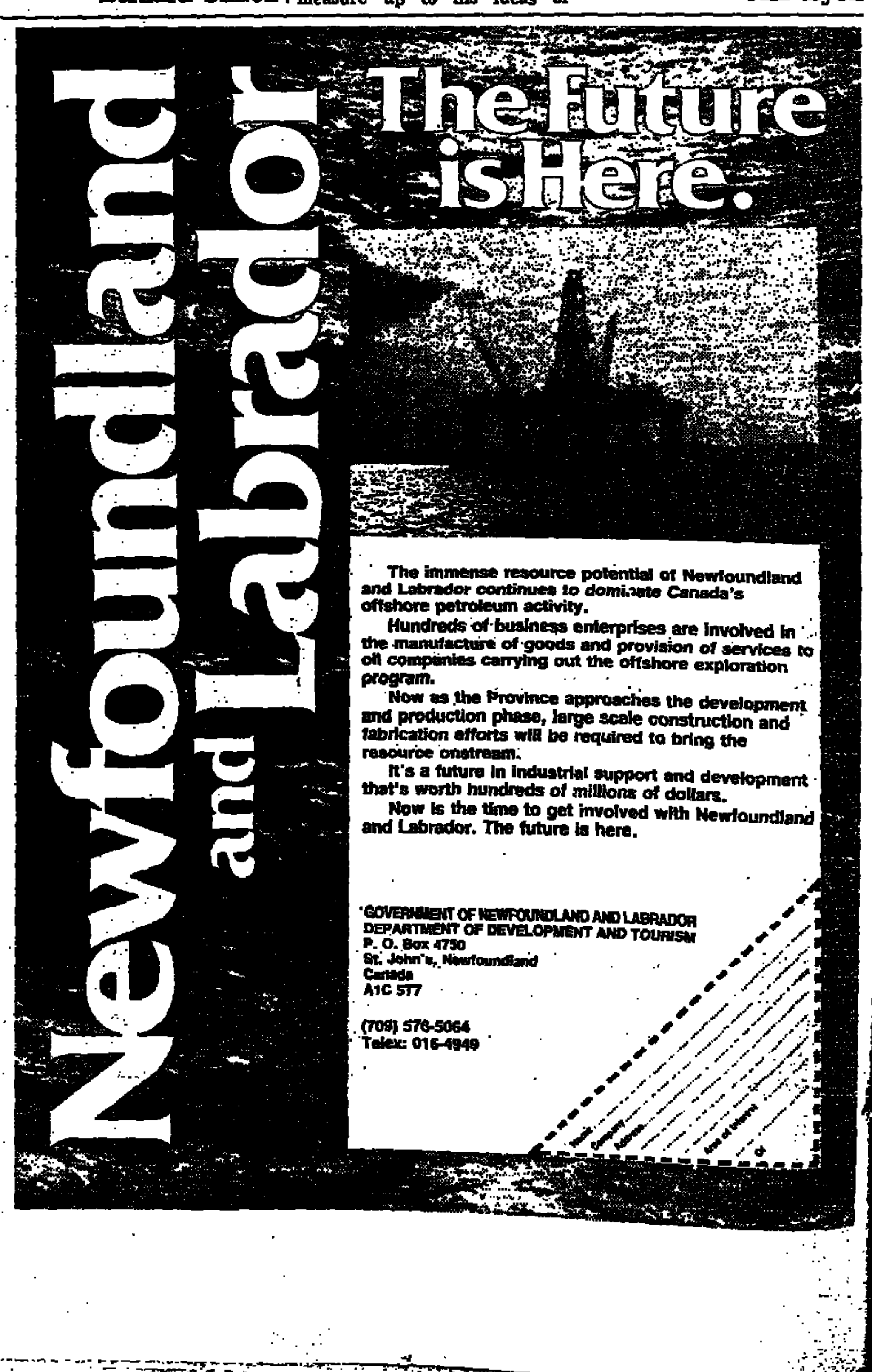
Mr Pattison spent a weekend thinking about it but decided he would be much happier remaining in business.

Politics would not fit the Pattison style; he is used to issuing commands and seeing results—or else—and claims that his Expo involvement has not enhanced his business opportunities. But there is no doubt it has given him a broad international exposure.

His interests in British Columbia include a chain of food stores, food-processing companies, two airlines, car dealerships, an internationally syndicated television show, advertising sign companies, a travel magazine, a magazine distributorship, a computer service company, a radio station, and a recreational vehicle manufacturer.

As soon as the big show closes in October, Mr Pattison says, he plans to return to what he does best: making deals to expand his agglomeration of companies.

Jim Lyon



V

Regional Profiles

Construction leads upswing

ONTARIO

WHEN OIL prices were at a peak six years ago, the industrial heartland of Ontario stagnated while Alberta reaped the benefits of its oil and gas wells.

Now the roles are reversed, with Ontario enjoying a strong economic upswing.

So strong has activity become that concern is rising that parts of the provincial economy may overheat, with labour and materials shortages causing higher inflation not only in Ontario but in Canada as a whole.

Ontario's output is expected to rise by 4·5 per cent in real terms this year, compared to the national average of 3·4 per cent. Unemployment has come down from 9.1 per cent in 1984 to less than 7 per cent.

Construction is especially strong, thanks to a surge in homebuilding and the continuing development of office space despite high vacancy rates. The Ontario construction industry began picking up in 1984, a year ahead of the rest of the country.

The Canadian Construction Association estimates that construction spending in the province grew by 10 per cent in real terms in 1984 and another 12.5 per cent last year.

Fuelled by lower interest rates, higher personal incomes and migration from less fortunate parts of the country, the Toronto housing market has taken off. Prices in some neighbourhoods have climbed by more than a quarter in the past nine months. Housing starts are expected to rise by 5 per cent this year after a 35 per cent jump last year.

The fall in oil prices is one of several bits of good news for Ontario, which accounts for almost half of Canada's manufacturing output. The automotive industry, a mainstay of the manufacturing belt stretching from Oshawa, east of Toronto, to Hamilton in the southwest, has benefited from strong demand in both the US and Canada. Motor manufacturers directly contribute about 19 per cent of Ontario's industrial output.

Although vehicle sales are now drooping, Ontario business is getting another push from substantial new investments by US and Japanese carmakers.

General Motors, American Motors, Toyota and Honda all have plans for new assembly plants in Ontario. Suzuki and GM are at an advanced stage of negotiations for another sizeable investment.

As in the rest of Canada, however, the upswing is not evenly spread. Some towns which rely heavily on single employers still face difficult times. In Sault Sainte Marie for instance, Algoma Steel cut its workforce by 18 per cent earlier this year. The company, Canada's third biggest steelmaker, is a large producer of steel tubes for the oil and gas industry.

Uranium mines in northern Ontario and the province's farmers have also missed the present wave of prosperity.

The burgeoning economy has been a boon for Ontario's new Liberal government, which took office a year ago after 42 years of unbroken Conservative rule in the province. But it is by no means the only reason for the Liberals' growing popularity.

The new premier, Mr David Peterson, has also shown himself to be an astute politician. He has been less compromising and more interventionist than his Tory predecessors but he has chosen carefully the issues on which to take a stand.

While expressing reservations about the Federal Government's free trade talks with the US, the Ontario premier has so far been careful not to put himself in a position where he can be accused of scuppering an initiative which may bring substantial advantages to less fortunate parts of Canada and perhaps even the long-term benefits to Ontario.

Free trade supporters have reminded him that Washington now has the right to terminate the 1965 automotive trade agreement — which more than anything else has stimulated the Ontario motor industry — on one year's notice.

On the other hand, the Peterson government has provoked several political controversies where its opponents have been special interest lobbies with little popular support. It has upset lawyers by abolishing Queen's Counsel appointments and it annoyed many business people by imposing strict new anti-pollution controls.

One of the Liberals' most contentious measures is a proposal to ban Ontario's 15,000 doctors from "extra billing"— in other words, charging patients higher fees than the rates paid by the provincial health insurance scheme.

Bernard Simon

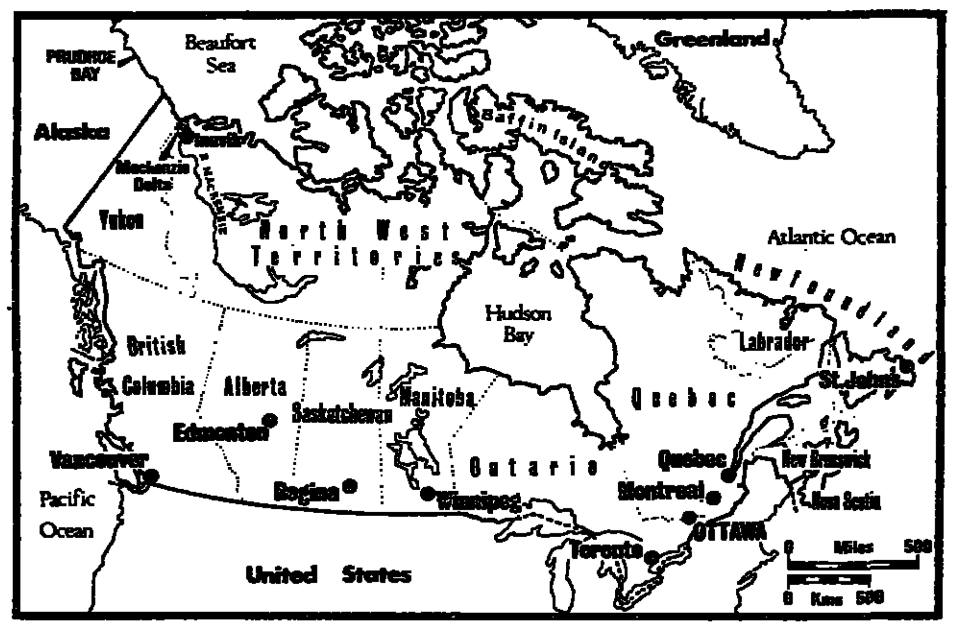
Canada's ten provinces — economic output

	1985 share	per cent change 1982	1983	1984	1985	1986	1987
ATLANTIC CANADA	5.6	−4.1	4.1	5.3	2.7	1.9	2.0
Newfoundland	1.2	−8.9	2.9	3.1	2.2	1.4	2.0
Prince Edward Island	0.3	−1.7	4.6	5.2	2.2	2.5	2.2
Nova Scotia	2.4	−3.3	4.3	7.2	3.2	2.0	2.1
New Brunswick	1.7	−2.0	4.7	4.9	2.4	1.9	2.1
CENTRAL CANADA	67.9	−4.6	3.3	5.9	5.0	4.4	4.4
Quebec	22.9	−4.9	2.8	5.1	4.0	3.8	3.9
Ontario	41.1	−4.3	4.6	6.4	5.6	4.9	4.7
Manitoba	3.9	−3.7	1.9	5.3	4.9	3.5	3.7
WESTERN CANADA	26.5	−4.2	−0.1	2.6	4.0	1.8	0.6
Saskatchewan	3.6	1.7	2.4	1.4	3.3	1.6	1.6
Alberta	11.1	−3.8	−2.9	2.1	4.5	−0.7	−2.6
British Columbia	11.8	−6.2	2.0	3.6	3.7	4.3	3.4
CANADA	100.0	−4.3	2.7	4.9	4.5	3.5	3.4

Source: Bank of Nova Scotia.

Liberals put separatism on ice

QUEBEC



A NEWLY confident Québec province has put aside the independence issue and is again taking its place in the North American mainstream.

The province came under new political management last December when the Québec Liberals under Mr Robert Bourassa swept back to power with more than 50 per cent of the key Francophone vote and 99 of the Assembly's 122 seats.

The separatist coalition led by Mr René Levesque, the Parti Québecois, had been in power for nine years. But the party had lost the support of Québcois youth and of the big unions. Its organisation was in dissaray, and the passion for independence from Canada had waned. Even the fight with Ottawa for more provincial powers had become tiresome after Mr Pierre Trudeau ceased to be Federal Prime Minister in 1984.

Public opinion moved decisively towards the more pragmatic approach of the Québec Liberals and their more coherent economic policy. Voters had clearly had enough of bickering over language differences and street signs in Montreal, high taxes, persuasive government intervention and truculent unions.

The Québecois wanted to get on with building a stronger and more diversified provincial economy, emphasising technology productivity and the creation of new wealth. The last time unemployment was below 10 per cent was in the early 1970s, when the first Bourassa government started the C$14.5bn James Bay hydro-electric project.

Already tensions have eased. The Francophones, who make up 80 per cent of the province's population of 6m, feel less isolated, while the Anglophones are relieved that the issue of separation has been put on ice.

French has become the everyday language of work and of business in Montreal, and the exodus of Anglophones and head offices to Toronto is over. Tourists are flocking in from the US, Europe and Asia.

The Parti Québecois, led by Mr Pierre Marc Johnson, is marshalling its remaining forces, temporarily exploiting indignation about English language street signs in Montreal, but really searching for a new programme which involves something more than an updated version of the fervent provincial "nationalism" of the 1960s. On the independence issue it tends to waffle.

Many hardcore Parli Québecois separatists in the PQ coalition defected before last December's election as Mr Johnson deftly tried to steer the party away from its commitment to independence. This group is now coalescing around the new Rassemblement Démocratique pour l'Indépendance but without the support of several former Parli Québecois ministers. Though lacking an experienced leader, the Rassemblement wants to become a reorganised political party next year.

The Bourassa Government in Québec has moved swiftly to cut personal taxes nearer to the Ontario levels while increasing consumption taxes to compensate. Together with around C$1bn in public sector spending cuts, it hopes to hold the budget deficit to C$3bn and retain the province's high credit ratings.

It has moved to accept the "Canada Clause" in the federal constitution, allowing English-speaking children from other provinces to attend publicly-financed English-language schools even though their parents were not educated in English schools in Québec. More than 1,000 children of Italian parentage now "illegally" attending English-language schools in Montreal will be allowed to stay.

Once a key court decision is handed down, the Government will move away from the extreme restrictivenes of Bill 101, the PQ's French Language Charter. It is expected to allow street signs in French and English in Montreal as long as French has precedence.

Prime Minister Brian Mulroney and Federal Liberal leader Mr John Turner in Ottawa say they want Québec to sign the 1982 federal constitution within two years or before the next Federal election.

Québec has laid out its demands: its recognition in the Constitution as a distinct society within Canada; more powers over immigration; restoration of a veto on constitutional change; a say in naming Supreme Court judges; limits on Federal spending powers in the province; and financial compensation when it opts out of Federal programmes.

In 1981 Mr Trudeau, supported by the other nine provinces, refused Québec's demand for special status. As a result of the manoeuvring, Québec bargained away its veto and then refused to sign the Constitution.

But both Mr Mulroney and Mr Turner have committed themselves in principle to accept most of Québec's demands, responding in part to swings in their own popularity in Québec and in part trying to win over the Québec "nationalist" lobby.

Ontario and the other provinces have always opposed special status for Québec, saying all provinces should enjoy equal rights and powers. Whether the new Liberal Government in Ontario, trying to speed provision of French schooling and other services to its Francophone minority, could compromise is not yet clear.

The economy of Québec is growing at 3 per cent a year in real terms, with lower interest rates, a fairly solid consumer sector, active housebuilding, exports helped by US growth and the weak Canadian dollar and lower oil prices.

The provincial business school boom of the 1960s and 1970s has produced a new breed of Francophone managers and executives who are now running the private sector and are also represented in the Bourassa cabinet. They are developing the financial services sector swiftly, with an eye on national and international expansion.

Many have started new businesses in manufacturing and the service sectors or have acquired sizeable companies through leveraged buyouts. The Montreal Stock Exchange has listed about 50 of these companies in the past 12 months with the help of a tax provision allowing Québec residents to deduct up to 75 per cent of the cost of purchasing newly-issued shares within certain limits.

The Bourassa Government wants to use this new spirit of enterprise to achieve a healthier balance between the public and private sectors and maintain economic growth so that Québec can reduce consumption taxes and be more competitive with its powerful neighbour Ontario.

It wants to privatise a dozen Crown corporations (but not Hydro-Quebec, the largest), to restructure the old industrial economies of Montreal Québec City, Trois Rivières and other larger towns, to increase exports of manufactured goods, and later to make a start on the second phase of James Bay based on power contracts with Ontario and the US.

R. G. Gibbens

Exodus as oil profits collapse

THE WEST

WHEN Prince Charles and Princess Diana charmed their way through Expo '86 in Vancouver last May they were joining in a celebration of the brightest spot in western Canada's generally dismal economy.

While Expo organisers welcome the world to a fair which will generate close to C$2.5bn for British Columbia, developments in international trade have left some of that province's lumber mills lying idle, shut down oil wells in Alberta and forced many Saskatchewan and Manitoba farmers to live at the mercy of their bankers.

Another irony is that as tourists flock west to Expo, as many as 90,000 western Canadians could head east this year in a search for jobs. Many are oil workers who earned good money in the oil boom of the late-1970s and early-1980s when world crude prices soared. Close to 15,000 people have been laid off since prices began tumbling late last year.

The determination of Arab nations to force Britain and Norway into production cuts has badly hurt Canadian oil producers, who are going through their first year without government price controls.

First-quarter profits of most Canadian oil producers fell by 30 to 70 per cent. Many important projects have been called off or curtailed as oil companies, losing an estimated C$10bn in revenue this year, cut everything from well drilling (down 60 per cent from last year) to office staff.

This is bad news for men like David Keller, a 34-year-old Calgary welder. He has spent two years travelling across Canada looking for work, often sleeping in his car because he cannot afford hotel prices.

"I was born and raised in the west and I want to stay here," he said. "But when 2,400 guys apply for 24 jobs with the Calgary fire department, where do you find any work?"

James Vertoch, a long-distance trucker, watched the last of his four sons leave Alberta in the fall. He refused to budge. But when his employer took a paid job this spring Mr Vertoch saw the writing on the wall and prepared to move from Calgary to Vancouver, where he found work.

"My smart move is to get out now before it gets rougher," he said.

The oil price collapse could not have come at a worse time for Alberta's economy, which last year had begun to recover from a deep recession.

The province's farming and coal mining are also in the doldrums. Northland Bank and Canadian Commercial Bank, the only two banks based in Alberta, failed last September.

Like the oil workers, farmers in Saskatchewan, Manitoba and Alberta enjoyed boom days when world grain shortages sent wheat prices up to C$6 a bushel. Men like Joe Tarasoff thought the early 1980s were a good time to set their sons up in farming. They borrowed heavily and farm debt across Canada rose from C$8bn in 1975 to C$22.4bn in 1985, according to the Federal Department of Agriculture.

Now, two years of drought and far too many grasshoppers have left Mr Tarasoff and his son David wondering how to pay for their land in southern Alberta. "When we bought this section (640 acres), wheat was C$5.80 a bushel. Now its C$3.54," said David Tarasoff.

Canadian farmers are caught in the US-EEC "wheat war," which has sent world grain prices plummeting. Prairie farmers have already been told that this year's initial price for wheat will be 19 per cent lower than last year's. Then profits last year fell more than 35 per cent to about C$1.2bn.

The problem of depressed grain farming is most acute in Saskatchewan, where 40 per cent of Canada's agricultural land is located. When farmers cut back on fertilisers last year, potash prices plunged.

The Potash Corporation of Saskatchewan, which mines and sells potash, lost C$88.7m last year. The Canadian fertiliser industry went from a C$148m profit in 1984 to a C$19.6m loss in 1985.

International trade disputes have also hit the lumber industry, the main force in British Columbia's economy. In May, while politicians debated a freer trade relationship between Canada and the US, Washington announced a 35 per cent tariff on cedar shingle imports. Washington has subsequently ordered an investigation into Canadian subsidies on softwood lumber.

David Willis, vice-president of Port Hardy Forest Products in Vancouver Island, immediately laid off all 60 of his wood-cutters as orders for cedar dropped. He predicts that as many as 8,000 Canadians could be out of work unless both governments act to prevent a timber trade war.

Despite this setback, British Columbian forest products generally have done well this year. Plywood and pulp markets have strengthened and demand for lumber used in housing has increased as Canadian and US interest rates declined.

The governments of all the western provinces are under pressure to give further tax concessions to the oil, lumber and mining industries and a C$1bn subsidy programme for farmers to help them to weather world trade storms.

Attempts at economic diversification has prompted the formation of some small businesses. Tourist dollars (US as well as Canadian) from Expo 86 and the 1988 Winter Olympics in Calgary are all-important economic stimuli.

But until western Canada can create a more varied economy, the land that not long ago thrived on the idea that "big is better" must learn to live with less.

Janet Moffatt and Kevin Cox

Wheatfields on the Saskatchewan prairie, where falling grain prices have put many farmers in debt

Poor Sisters hedge their bets

ATLANTIC

LESS THAN two years after voting heavily for Brian Mulroney's Federal Conservatives, Canada's four Atlantic provinces ("the Maritimes" and Newfoundland) have begun hedging their bets with a strong swing to the Liberals in provincial politics.

In April, voters in Prince Edward Island, the smallest of Canada's 10 provinces, turned out Premier Jim Lee's seven-year-old Tory administration and Joe Ghiz, son of a Lebanese grocer, became the first Canadian premier with a non-European background.

In New Brunswick, Richard Hatfield, Canada's longest-serving premier, seems unlikely to hang on beyond the next election, expected within a year. His popularity has never recovered from prolonged allegations of drug use and free use of a government aircraft.

Hatfield stood trial for drug possession two years ago, after police found a small quantity of marijuana in his suitcase while checking luggage during a tour of the province by the Queen. He was acquitted.

The Atlantic provinces' remaining pair of Conservative premiers, John Buchanan of Nova Scotia and Brian Peckford of Newfoundland, have also been buffeted by recent events. But both have at least two more years before they must face the voters.

The Nova Scotia legislature recently adjourned after a four-month session in which several ministers came under relentless criticism from the Liberals and three New Democrats for their handling of environmental issues, the provincial deficient, patronage appointments, and charges of political interference with the judicial process.

In Newfoundland, Premier Peckford has been locked in an acrimonious battle with the province's public-sector trade unions. An illegal strike by 5,500 transport, public works and general service workers ended on April 6, when the two sides signed a back-to-work agreement which included sweeping concessions by the government.

The union has since accused the Newfoundland provincial government of reneging on its promises and has threatened to renew its strike in early September — this time with the active support of 5,500 other workers, including hospital employees.

This political ferment takes place against a background of continuing economic disappointment in the region.

Traditionally the poor sisters of the Canadian Confederation, the Atlantic provinces have been largely left behind by the economic renewal that followed Mr Mulroney's election in 1984.

Falling oil prices have scotched hopes for an economic renewal driven by offshore oil and gas. A minor exploration boom off the shores of Newfoundland and Nova Scotia has all but petered out. Less generous Federal Government incentives and poor drilling results have contributed to the decline.

Two prospective developments by Mobil Canada, the Venture gas field off Nova Scotia and the Hibernia oilfield off Newfoundland, have been plagued by disappointing delineation wells. Hibernia seems likely to proceed when and if oil prices rebound, but chances of production from Venture seem remote before 1999.

The one bright spot is Atlantic fishing, which has rebounded smartly after years of turmoil culminating in the bankruptcy and reorganisation (with massive government assistance) of several large offshore fisheries.

The restructured companies now have healthy balance sheets, helped largely by the depreciation of the Canadian dollar against the US dollar and European currencies. Fisheries trade disputes with the US loom as a serious potential problem, however.

Atlantic Canadians have traditionally viewed free trade with the US, and New England in particular, as a recipe for economic salvation. But this fervour has ebbed somewhat since the Mulroney government in Ottawa launched its free trade initiative.

Unemployment in Atlantic Canada remains high, ranging from 14.4 per cent in Nova Scotia to 22.2 per cent in Newfoundland.

Per capita annual incomes for the four provinces — Nova Scotia C$11,700; New Brunswick C$10,700; PEI C$10,300; Newfoundland C$9,700 — are also well below the Canadian national average of around C$14,400.

Generous tax incentives aimed at encouraging private sector solutions for Cape Breton's chronic economic stagnation have begun to show results, albeit modest ones.

Magna International, a Toronto-based motor parts manufacturer, plans to put up two plants in the island employing 250 people. Factories to process lobsters and make advanced mining equipment are also on the drawing boards.

These projects have brought a flicker of light to the most depressed area of Atlantic Canada. In other regions, however, the hopes that were raised earlier by oil and gas discoveries are now fading.

Parker Barss Donham

Edging towards equal status

FAR NORTH

WHEN Canadians talk of "heading north" they usually mean the vacation resort areas near Montreal, Toronto, Winnipeg or Vancouver.

The 80 per cent of Canadians who live within 200 miles of the US border seldom take account of the vast area of their country beyond that, stretching to within 430 miles or so of the North Pole.

Southerners are often criticised for regarding the Far North as a remote depository of oil, metals and furs, but doing little to integrate its economy and its people into the rest of Canada.

The search for the North-West Passage, the Yukon gold rush and, most recently, the prospect of oil and gas discoveries in the high Arctic are among the few episodes in the past two centuries which have left a lasting impression in the south.

Nonetheless, the economic, military and political importance of the Far North is growing. The population of Yellowknife, biggest town in the Northwest Territories, has more than doubled in the past decade to 11,000.

The Far North sprang into prominence again last summer when Washington angered Ottawa by sending an icebreaker ship through a part of the North-West Passage over which Canada has asserted sovereignty.

Even tourists are taking a greater interest in the north. Whether one likes fishing, wildlife spotting, visiting native artists or admiring unusual scenery, the region offers an absorbing holiday.

The Yukon and the North West Territories (NWT) are slowly edging towards equal status with Canada's 10 federal provinces. Chairmanship of the NWT's executive council, or Cabinet, was transferred earlier this year from the Territory's commissioner, a Federal civil servant, to the government leader, an elected official.

The executive council has also taken over all the commissioner's duties.

Further constitutional progress is being held up by extensive land ownership and mineral rights claims by the Territories Indian and Inuit (Eskimo) inhabitants. The claims stem partly from treaties signed earlier this century which assigned 1½ sq miles to each family.

Some groups, notably the Dene Indians who live below the Western Arctic treeline, are claiming more.

In addition, residents of the Eastern Arctic, including Baffin Island, are pressing for the NWT to be split in two. This proposal is complicated by Dene fears that they would be in a minority to whites in the new western region. Native people out-number whites by about three to two in the existing NWT.

Mr John Parker, the NWT's genial commissioner, predicts that the split may be achieved within a few years, but that it could be a decade or more before the Territories gain full provincial status.

The drop in the oil price and charges introduced by Ottawa last year to frontier exploration incentives have cast a shadow over the North's economic development. These setbacks came just as the long search for offshore oil and gas reserves in the Beaufort Sea seemed to be succeeding.

Encouraging results from a Gulf Canada well drilled earlier this year have raised hopes of commercially viable deposits.

Pan-Artic Oils, of Calgary, which has spent C$750m on Arctic exploration in the past 18 years, demonstrated its ability to overcome the rigours of the Far North last August by sending a symbolic 100,000-barrel shipment to Montreal from a small development in Cameron Island in the Arctic.

The Pan-Arctic Oils project and the massive grants handed out by Ottawa to encourage Arctic exploration illustrate that the market economy has only a limited bearing on the development of the North.

The NWT and Yukon administrations still depend on transfers from the Federal Government for about two-thirds of their revenues.

Generous government aid from Ottawa has prompted the re-opening of the Cyprus Anvil zinc mine in the Yukon. Jobs and other economic activity provided by the mine clearly weigh more heavily with the authorities than the over-supply of zinc on world markets.

Military activities have played an important part in opening up the North. An increase in the number of Soviet cruise missile carriers and sightings of Russian submarines off the Arctic coast have spurred the US and Canada to modernise their northern defences in terms of the recently renewed North American Aerospace Defence Agreement (Norad).

Construction starts this summer on a new Northern Warning System (NWS), whose Canadian component will include 11 long-range and 36 unmanned short-range radar stations from Labrador to Alaska. The new system is expected to be in place by 1991-92.

Six new fighter airstrips are also being built at a cost of between C$100m and C$200m.

The sparsely populated Canadian Arctic, with a land and fresh water area of 3.9m square km, is a useful training ground for Nato forces.

In an effort to prevent further challenges to its sovereignty over Arctic waters, Ottawa plans to build a new icebreaker ship capable of year-round Arctic patrols. It is also drawing formal boundaries around the vast Arctic archipelago.

Bernard Simon

SECTION III

FINANCIAL TIMES SURVEY

Canada

The next few years will reveal whether 25m Canadians can sustain their enviable living standards, high degree of public order and civilised way of life into the 21st century.

Prosperity put to test

By Bernard Simon

AS CANADIANS start their summer holidays this month, most will find little to disturb their sense of calm well-being.

The threat of terrorist bombings in Europe and violence in Lebanon and South Africa will seem far removed as they enjoy tranquil evenings at their lakeside cottages or the high-tech wonders of the Expo '86 world fair in the spectacular setting of Vancouver.

US tourists are streaming into Canada in record numbers this summer.

On the economic front, many Canadians who have been out of work in the past five years are now sharing in one of the strongest recoveries among industrial countries, as unemployment drops towards 9 per cent from 11 per cent two years ago.

Inflation is low. Interest rates have been coming down, sparking a strong upswing in the housing market in some cities. Even those Canadians still without jobs can take comfort from one of the world's most generous social security systems.

Beneath the quiet prosperity, however, this most civilised of societies is entering a testing period. Developments on a number of fronts are converging to play a crucial part over the next few years in determining whether Canadians can sustain their enviable living standards into the 21st century.

These emerging forces will profoundly influence Canada's competitiveness in world markets and will determine the extent to which the disparate regions and cultures of this vast country—in area the second largest in the world after the Soviet Union—can pull together for the benefit of the nations as a whole.

Prime Minister Brian Mulroney, whose first 20 months in office have been marred by vacillation on some big issues and political embarrassments on small ones, raised the political temperature by his uncharacteristically bold decision last September to launch talks on a free trade agreement with the US.

The free trade talks, which began formally in May, are likely to continue for at least 19 months (and probably much longer). Conceived as a far-sighted effort to gain secure access for Canadian goods in the US in the face of growing US protectionism, the free trade initiative has far-reaching implications for Canadian society as a whole.

Free trade raises such questions as the future direction of a resource-based economy, the preservation of Canadian culture and even for some the sovereignty of Canadian political institutions.

If it becomes a reality, free trade could have an important bearing on Canadian labour productivity, taxes and industrial strategy.

Although Canada is the world's second biggest country and the seventh biggest economy in terms of output, it is inextricably tied to the US.

US companies provide 80 per cent of all foreign investment and Americans buy 78 per cent of Canada's exports. Canadian interest rates generally follow with US trends.

Canadians spend 70 per cent of their television time tuned into US stations. Three of every four books they read are published outside the country, mostly in the US.

Mr Donald Campbell, chairman of Maclean Hunter, a leading Canadian communications company, recently equated Canadians' concern to preserve their "cultural identity" with Americans' view of their "national security."

As a result, Canadian governments take an unusually close interest in the well-being of cultural industries. Subsidies for film producers, local content requirements for radio and TV, and tax deductions for advertising in Canadian magazines are among the tools used to nurture Canadian culture.

Washington wants these protectionist measures to be on the negotiating table.

Canadians have a love-hate relationship with their southern neighbours. Most of them recognise that being close to the most powerful economy on earth brings special benefits. For example, the integration of the two countries' motor industries since the signing of an automotive trade agreement in 1965 has proved a boon to Ontario and Quebec.

Canadian and US teams play in the same baseball and ice hockey leagues. The US has given many Canadian students, managers and professionals an opportunity to broaden their horizons without moving far from home or having to endure a severe culture shock.

On the other hand, Canadians take justifiable pride in some of the differences between the two societies: their lower crime rate, their cleaner and safer cities, their less competitive work ethic, their greater sensitivity to such issues as disarmament, the environment and the problems of Third Word development.

The free trade debate is complicated by disparities between Canada's 10 far-flung provinces. For the resource-based economies of Saskatchewan, Alberta and British Columbia in the west and the Atlantic provinces in the east, lower trade barriers raise the prospect of easier access for lumber, fish and farm products to the US market.

Inhabitants of these provinces would gain by importing manufactured goods from the south rather than having to pay high transport costs to bring them from the factories of Ontario and Quebec.

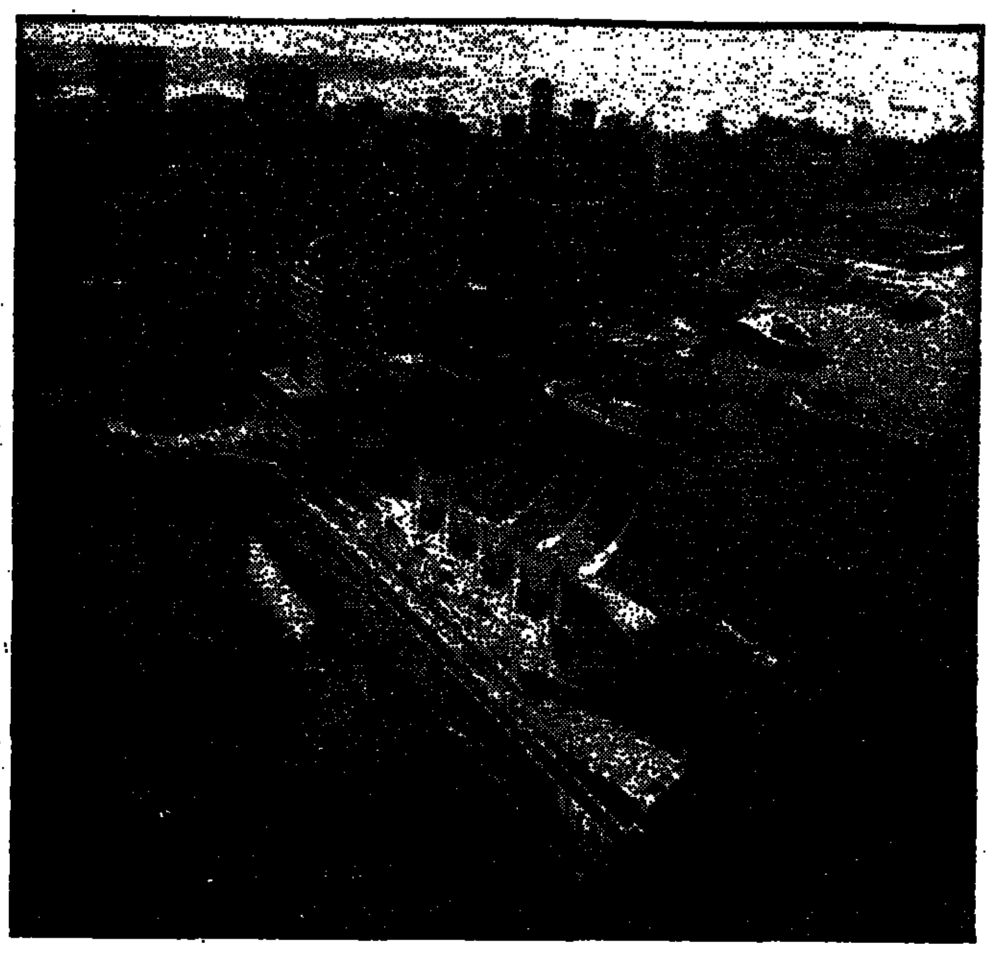
On the other hand, the conventional wisdom is that, with a free trade pact in place, central Canada's manufacturing industries would be swamped by US goods and many US investors would close their Canadian branch plants to supply their northern markets from big, efficient factories in the US.

Trade unions, worried about the impact on jobs, are in the forefront of the fight against free trade.

The sudden fall in world oil and grain prices has brought a new dimension to these regional priorities. While Canada's overall GNP is expected to grow by 3-4 per cent this year and by 2-3 per cent in 1987, oil-producing Alberta and the wheat-producing prairie provinces are in serious trouble.

Alberta's economy, which was on the brink of a healthy recovery this time last year, is now expected to shrink by 2 per cent in real terms in 1986. The number of oil rigs operating in western Canada has shrunk from 300 to 100.

Furthermore, prospects of developing high-cost oil and gas fields off the coast of Nova Scotia and Newfoundland have receded into the far distant future.



The Canadian Pavilion at the Expo 86 World Fair in Vancouver

Unemployment in these less fortunate parts of the country — already well into double digits—is now rising. Canadian oil producers, still burdened by the heavy debt which they took on to finance expansion in the heady 1970s, face a severe financial crunch in 1987.

Low energy prices are a boon for the energy-consuming industrial provinces of Ontario and—to a lesser extent—Quebec. Ontario's growth rate will come close to 5 per cent this year and its unemployment rate should drop below 5 per cent.

The widening gap between the haves and have-nots creates the potential for rising political tensions, as it did when the roles were reversed during the Opec-led oil boom of the late 1970s and early 1980s.

At that time, former prime minister Pierre Trudeau made bitter enemies of the oil companies and western Canadians in general by artificially holding down domestic oil prices, raising taxes on energy producers and providing generous government handouts to encourage exploration in the Arctic and off the East Coast at the expense of the west.

In 1986, the boot is on the other foot. Ottawa began dismantling the Trudeau National Energy Programme last year before the oil price plummeted, but pressure is now growing on the Federal Government to do more.

Mr Howard Macdonald, chairman of Dome Petroleum, Canada's biggest independent oil and gas producer which has amassed debts of C$6bn, warned recently that "government action has so far been modest in comparison to the size of the problem." Prairie grain farmers are pressing for more financial aid.

Ontario and Quebec may also be expected to make sacrifices for the sake of their less fortunate countrymen in the west and east. Some observers already see a link between mounting restiveness in the west and Ontario Premier David Peterson's less strident opposition in recent months to the free trade initiative.

Optimists predicted a new era of federal-provincial goodwill when Mr Mulroney's Progressive Conservative party came to office in a landslide election victory in September 1984 after more than two decades of almost unbroken Liberal rule in Ottawa.

At the same time, no fewer than eight of the 10 provincial governments were in Conservative hands. In Quebec Mr René Levesque's Parti Québecois was eager to boost its sagging popularity by forging closer links with Ottawa. Only Manitoba, governed by the mildly socialist New Democratic Party, appeared to be out of the fold.

The line-up of both parties and personalities in provincial politics has changed dramatically in the past year. Ontario's tired Tory dynasty, in office for 42 years, has been replaced by the vigorous Liberal administration of Mr David Peterson, who is rapidly carving a reputation as one of the shrewdest politicians in Canada. Liberals have also taken over in Quebec and Prince Edward Island.

Alberta's Tories face a revitalised opposition after recent elections. The Tories are also exepected to lose ground (and perhaps the reins of power) in elections expected within the next year in Saskatchewan and New Brunswick.

These shifts, coinciding as they do with unsettling economic trends, will complicate Mr Mulroney's task of forging a national consensus on free trade. They raise the risk that some of the provincial governments will become even more inward-looking than they usually are, more determined than ever to put their own interests above those of the country as a whole.

Even so, Quebec's recent experience shows that changes can create opportunities too. Conciliatory statements by Federal Prime Minister Brian Mulroney and the new Liberal premier Mr Robert Bourassa have lifted hopes that Canada's largest (in area) and only predominantly Francophone province can again become a full member of the confederation by signing the 1982 Constitution.

Mr Levesque refused to sign after other provincial premiers turned down his demands for a Québec veto on constitutional changes. Formal negotiations are likely to be reopened soon.

After more than a decade of growing government intervention in the economy, Quebec is now a pace-setter in privatising state corporations and deregulating financial services.

ON OTHER PAGES

EUROPEAN HIGH TECHNOLOGY 2

Semiconductors

Striving to regain ground

DURING THE past 18 months one of the steepest and most brutal downturns in the history of the semiconductor industry has forced many US and some Japanese suppliers to retrench in the face of collapsing product prices and mounting losses.

Yet in Western Europe much of the recent emphasis has been on continued expansion. A number of established electronics groups have ploughed ahead with substantial investments intended to strengthen their market position in semiconductors, while several new companies have also been formed to enter the business. Among recent developments are:

● Siemens of West Germany and Philips of the Netherlands, Europe's two largest electronics companies, are committing almost $1bn to Megaproject, a four-year joint research programme designed to match Japan's leadership in advanced memory chip technology.

● Thomson, the French state-owned electronics group, is pressing ahead with ambitious plans to grab a share of the world market for mass-produced "standard" microchips. Last year it acquired a US base by buying from United Technologies many of the assets of Mostek, a leading Silicon Valley company which had plunged deeply into loss.

● SGS-Ates, part of the Italian state-owned Stet group, is in the midst of an aggressive international expansion effort and last year began mass production at a large plant in Singapore.

● European Silicon Structures (ES2), a novel pan-European start-up company which plans to make low-volume custom chips, raised $60m in financing from European investors including industrial groups such as British Aerospace, Saab-Scania of Sweden and Olivetti, of Italy.

This sudden flurry of activity reflects the renewed urgency with which Europe's electronics industries are striving to regain lost ground after a long period of standing on the sidelines while US and Japanese companies battled for supremacy in the fastest-growing sectors of the world microelectronics components markets.

European companies have a long way to catch up. Last year, according to the market research firm Dataquest, their semiconductor sales totalled $2.35bn, less than one-tenth of the $24.7bn world market. US-based companies sold $11.35bn, closely followed by Japanese suppliers with $10.7bn.

Worldwide merchant semiconductor production

	1980	1985
U.S.	60%	47%
Japan	25	39
Europe	13	11
ROW	2	3
	100%	100%

Source: Integrated Circuit Engineering Corp.

Top ten semiconductor suppliers

1984	1985
1. Texas Instruments	1. NEC
2. NEC	2. Texas Instruments
3. Motorola	3. Hitachi
4. Hitachi	4. Motorola
5. Toshiba	5. Toshiba
6. Philips	6. Philips
7. National Semiconductor	7. Fujitsu
8. Intel	8. Intel
9. Fujitsu	9. National Semiconductor
10. Matsushita	10. Matsushita

Source: Integrated Circuit Engineering Corp.

Moreover, the only European company to rank among the top 10 semiconductor suppliers is Philips, two-thirds of whose component sales are generated by Signetics, its US subsidiary.

On the other hand, European suppliers managed to avoid the worst of the industry slump. Their sales last year were only slightly below the 1984 level, compared with declines of 23 per cent and 5 per cent respectively for the US and Japanese industries.

Some individual European companies performed strongly, notably Britain's Plessey, which maintained profitable growth thanks to its specialised semi-custom businesses. But there were casualties too: Britain's troubled STC abandoned plans for a large-scale entry into "standard" chips, while Thorn-EMI began a search for partners to invest in Inmos, its loss-making chip subsidiary.

The recent resilience of European suppliers' sales is due to a large extent to conservative product strategies. Almost half their output is in more mature "discrete" components—not in microchips, where competition is most intense. The US and Japanese industries, by contrast, earn at least three-quarters of their total revenues from microchips.

While sales of "discrete" components provide a profitable cushion during market downturns, they grow much less rapidly than sales of microchips in times of booming demand.

The more adventurous approach taken recently by leading European suppliers partly reflects a belated recognition that they have been missing out on growth markets. At least as important for several of them, however, is their conviction that possession of and control over their own microchip technology are so vital to their future competitiveness that they have no option but to commit much greater resources to it.

Both Siemens and Philips say they decided to launch Megaproject not out of any bold ambition to challenge Japan's domination of the "standard" memory chip market, but because they believe the rigorous technical disciplines required by mass-production are essential to staying in the forefront of technology.

Both European companies hope to reap the main benefits of Megaproject through sales of sophisticated components for specialised applications: Siemens expects to use them particularly in telecommunications equipment, while Philips is aiming primarily at consumer electronics products.

Thomson views its expansion programme as a means of bolstering its competitiveness in defence electronics, its main business. It hopes that deeper involvement in "standard" chip markets will contribute both technical advantages and, more questionably, an additional source of profit from which to finance its mainstream research and development programmes.

But these ambitions carry big risks. To help to shoulder this burden, Siemens, Philips, Thomson and SGS-Ates have all obtained generous support from their national governments. Britain is a rare exception among EEC countries in not subsidising an indigenous chipmaker.

Mastering the technology is only part of the challenge, however. To make their new semiconductor initiatives commercially viable, European companies must also move much more aggressively to achieve large economies of scale in production and marketing. The necessary volumes can, in most cases, be attained only through a broad-based attack on major international markets.

European Silicon Structures, which was formed late last year, has adopted an original approach to this problem by organising itself from the start as a pan-European company.

The company's founders argue that European semiconductor companies have been handicapped in the past because they became prisoners of "national champion" policies which discouraged them from venturing far beyond their home markets. Now they hope that by deliberately eschewing identification with any one country ES2 will be in a better position to treat the whole of Europe as a single market.

Guy de Jonquieres

A small-dish satellite aerial for British Telecom digital services installed on a North Sea rig

Telecommunications

Monopolies forced into upheaval

OF ALL Europe's high-technology industries, none is in the throes of such violent, confusing and far-reaching upheavals as telecommunications.

After decades of steady and largely predictable development within a monopoly framework, Europe's telecommunications industry is suddenly being forced to adjust to the impact of powerful pressures for change from all sides:

● Technological "convergence" is rapidly eroding long-standing barriers which have separated telecommunications, not only from computing but also from businesses such as financial services and banking, which increasingly depend on sophisticated electronic systems to process and transmit information.

● The aggressive pursuit of deregulatory policies by the US, which has led to the spread of international competition in transmission and services, are posing major challenges to the finances and operating methods of European national telecommunications monopolies (PTTs).

● A proliferation of innovative products and services is opening up a far wider range of choice to telecommunications users.

● A shake-up in Europe's overcrowded telecommunications equipment industry as manufacturers struggle to expand beyond home markets which are no longer big enough to support soaring product development costs.

Until a few years ago, officials in many of Europe's PTTs imagined that, by standing their ground, they could resist or tame these forces. But under pressure from international competition and from their own national governments, they are now being forced to adjust.

Two main policy trends are discernable. One is liberalisation of markets to allow increased competition, particularly in the provision of new "value added" services such as data-base information systems and electronic mail. The second is privatisation, which has become a shorthand term for granting increased commercial independence to PTTs by removing them from direct government control.

However, the balance struck between these two goals varies considerably between countries, so that the emerging pattern in Europe is far from uniform.

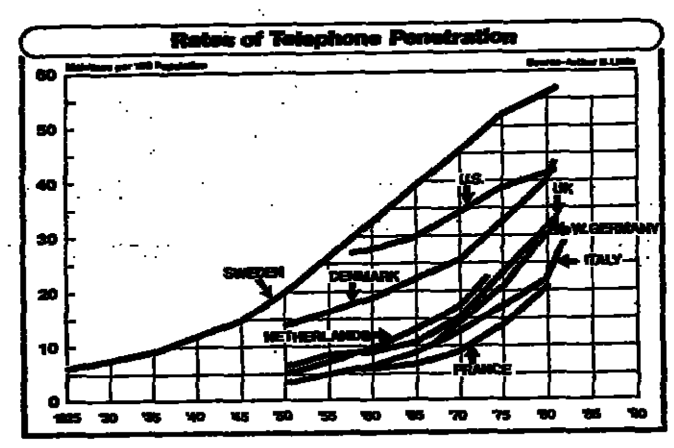
To date, the most radical action has been taken by Britain, which pioneered policy reform in Europe by liberalising its telecommunications market in 1981 and selling just over half of the state's shares in British Telecom to private investors in 1984.

Both the Netherlands and France have announced plans for more liberal policies. However, neither they nor any other European country aims to follow the example set by Britain in licensing the privately-owned Mercury Communications to compete with BT in operating a national network. Moreover, though present thinking calls for less government control over the Dutch and French PTTs, both are expected to remain state-owned for the foreseeable future.

Whether it will prove possible in practice to liberalise telecommunications services without admitting some competition in the public network remains to be seen. US and British experience strongly suggests that if new information services are to be permitted the regulatory freedom they need to grow rapidly PTT monopolies may have to be prepared to tolerate some re-sale of capacity on their networks to third parties and consequent revenue losses.

In West Germany, Europe's largest telecommunications market, a government committee is reviewing the role of the powerful Bundespost. It is unlikely, though, that any serious moves will be made to modify policy before the next federal elections, and the Bundespost is bound to resist strongly any serious effort to curtail its monopoly.

Rates of Telephone Penetration



None the less, even the Bundespost and other ultra-traditional PTT monopolies are being forced to meet the challenge of recent price competition on international routes. Most are reluctantly responding by cutting their own international tariffs, even though the resulting revenue losses can only be offset in the short-term by politically controversial price rises on domestic services.

For Europe's telecommunications equipment industry, these trends bring mixed blessings. On the one hand, genuine liberalisation is likely to stimulate demand and open up opportunities in individual countries. On the other, if each country responds in a different way, the existing fragmentation of national markets is likely to persist.

Differing national standards and equipment testing procedures pose major problems for the industry. It is estimated, for instance, that it would cost a manufacturer one hundred times more to get an item of subscriber equipment approved for use in every European country than for sale on the US market. Moreover, large parts of many European markets are blocked off by PTT procurement practices which discriminate in favour of local suppliers.

The EEC Commission has launched several initiatives to try to remove these obstacles. They include Race, a project to define common standards for future optical communications systems, and a proposal that European PTTs agree formally to recognise each others' equipment testing and approval procedures.

However, the Commission enjoys very limited authority, and no European manufacturer can afford to pin its hopes merely on efforts to open up EEC markets. Harsh commercial pressures have already forced suppliers to abandon development of their own digital public exchanges and prompted rationalisation moves within national industries.

But Europe still has more telecommunications equipment manufacturers than its markets can support. In an effort to survive, most companies are now looking increasingly to international collaboration arrangements and alliances to reduce costs and open up new market opportunities.

Though some modest steps have been taken by manufacturers in the EEC to pool their resorces in component development, the dominant axis of collaboration looks more likely to be transatlantic than intra-European.

Several European companies are trying to establish a presence in the vast US market by linking up with local partners. Britain's Plessey bought Stromberg-Carlson several years ago. France's CIT-Alcatel has acquired several small US companies, West Germany's Siemens is holding talks with GTE and Sweden's L. M. Ericsson formed a joint venture with Anaconda, which it has since bought out of the arrangement.

Meanwhile, the Dutch Philips group has pooled its public telecommunications equipment business in a joint venture with American Telephone and Telegraph, which is also in protracted negotiations on a proposed link-up with CIT-Alcatel.

The French Government is expected to decide soon whether to approve the latter project. If its attitude is favourable, as is widely expected, the deal would entitle AT&T to compete for up to 15 per cent of France's highly-protected public telephone exchange market in exchange for helping CIT-Alcatel to sell its products in the US.

Guy de Jonquieres

Computer Software

On the verge of a breakthrough

THE SOFTWARE industry is on the verge of a major breakthrough in productivity, and European software companies look like playing their full part in it.

Whether or not they will benefit commercially from their efforts is another question. The harsh fact is that an overwhelming proportion of all the systems software—that is, software which controls the functions of the computer itself or which makes it simpler to carry out data processing used in Europe —is North American in origin.

To some extent this is simply a function of the predominance of IBM in European Data Centres and therefore the use of its major operating software, including its flagship systems VM and MVS.

Even so, through companies like Cullinet, ADR and Boole and Babbage, the US seems to have a stranglehold on the market for the everyday working tools of the data-processing professional.

It seems fair to say that while some nations show a propensity for computer programming, good software production knows no frontiers. For years, for example, it has been received wisdom that the Japanese were unable to write high quality software. That prejudice is now rapidly evaporating.

Although European companies show up better where it comes to applications software —that designed to carry out a specific task such as payroll processing or personnel record management—US skill in developing "packaged" solutions has given companies like Management Science America, McCormick and Dodge and Comshare a powerful European presence. It is not software writing skill that gives the US the edge —it is marketing and a sound home market.

French software and services organisations dominate the league table showing revenues earned by companies from sales within Europe because of the large amount of bespoke programming they carry out for French companies. This stems, at least in part, from a French reluctance to use programmes written in English primarily for English - speaking processing centres.

The "packaged" software approach works well for US companies with their substantial home markets to use as a base for overseas sales. Packages are generalised pieces of software designed to carry out a particular task as long as the user bends his business routines to fit the package rather than the other way about.

Because of the economies of scale in selling the same software to multiple users, a package can be marketed for a fraction of the price of a tailormade system. According to the marketing consultancy International Data Corporation, the market for packaged software is expected to grow from 34 per cent of the total software and services market last year to 50 per cent by 1991.

Over the same period, IDC estimates, the proportion of the total market taken by custom software and consultancy will stay constant at 28 per cent.

These figures may be influenced, however, by substantial changes in the way software is produced. For the most part it now seems more of an art than a science. The user's requirements are agreed, a system specification is drawn up and programmers write the computer code which converts that specification into usable software.

In practice, there are usually costly over-runs both in time and money as the user's requirements change, the time taken to develop a piece of code is wrongly estimated and as it proves difficult to link together all the pieces of the system.

All this has given software production a poor image and given fresh impetus to software on a scientific and professional basis.

European companies like Cap Sogeti Gemini in France and Imperial Software in the UK are among the world leaders in software engineering, although it has to be said that software engineering programmes are under way in all the developed countries.

The aim is to develop programming systems or IPSEs (integrated programming software environments) which put the whole of software production on a scientific basis. IPSEs integrate the work of an entire software team so it is always working towards agreed goals using agreed methods and software "tools" make the production of software easier by, for example, automatically documenting ("writing-up") the process as the programmer works.

Such techniques could bring about substantial changes in the economics of bespoke software production.

The influence of the personal computer workstation is likely to be equally significant in changing the costs of software production.

There is already a strong need for *multiple* copies of workstation programs in big corporations to be used on all the personal computers a corporation owns. In such circumstances it is economically sensible to generate a tailormade program, possibly using special software engineering tools such as "fourth generation languages" which all but write the code automatically rather than moulding the organisation uncomfortably around a package.

As Mr Philip Hughes, chairman of Logica, told the Royal Society recently: "The role of the custom software company shows no sign of declining . . . it uses packages as and when appropriate and increasingly uses systems kernels.

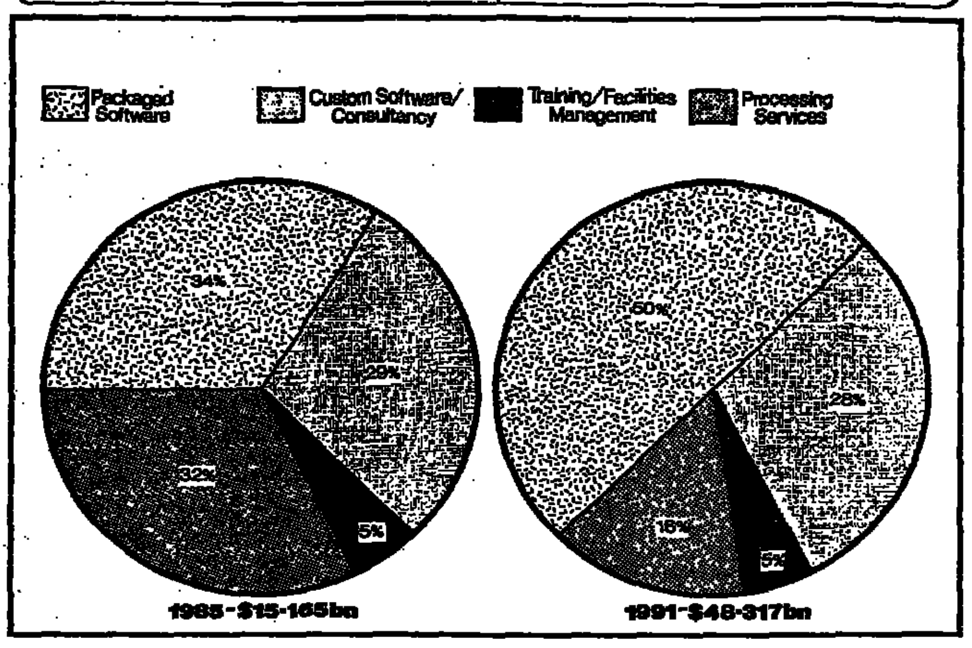
"The seemingly sharp distinction between software products and custom software is likely to become blurred."

All this should be to Europe's advantage. But it is trying hard to turn things to its own advantage, especially with the new emphasis on an operating system called Unix as the systems environment of the future.

Unix, written at Bell Laboratories, is a powerful operating system much liked by programmers although flawed in many respects. But it has the advantage of not being part of the IBM range of systems software and is therefore seen as a bulwark for Europe against the US giant.

Alan Cane

Western Europe - Software & Services



Software and Services Market

	1985 $bn	Share %	— Estimate — 1991 $bn	Share %
West Germany	2.76	18	9.53	20
France	3.39	22	10.20	21
Italy	1.59	11	5.28	11
UK	2.66	18	8.56	18
Western Europe	15.16		48.31	

Western European Vendors - 1985

	Country	Worldwide Revenue*
Cap Gemini Sogeti	France	247.3
Scicon International†	UK	143.4
GSi	France	139.1
Sema Metra	France	128.8
SG2	France	122.4
Datev	W. Germany	121.8
CISI	France	102.1
Scanvest	Norway	96.2
SESA	France	96.2
Thorn-EMI‡	UK	94.1
CCMC	France	90.3
Volmac	Netherlands	84.3

* From pure software and services, excluding captive revenues.
† Includes SC division in the US.
‡ Includes Datasolve and Software Sciences.
Source: IDC

Computer Technology

Alliances sound nationals' death knell

THE QUALITY of the European contribution to the development of computing has never been in doubt, even if it has only rarely been translated into commercial success.

To take only three examples:

● Some 20 laboratories throughout Europe are well advanced with a collaborative project to develop a computer designed to process information using light rather than electricity. Such a machine could operate, in theory, 1,000 times faster than conventional computers.

● A broad spectrum of companies in Europe, the US and Japan are developing products based on the transputer, a complete computer-on-a-chip devised and built by the UK company Inmos.

The transputer is perhaps the most radical development in microprocessor design yet seen and a major step towards parallel processing architectures, the foundation for tomorrow's data-processing systems.

● The world's first personal computer was developed in France even if the US Altair and Apple Corporations swiftly grabbed the early honours in personal computing.

Despite all this technological brilliance, Europe now has nothing to offer in the supercomputer stakes, a field dominated by the US companies Cray and CDC and the Japanese NEC. It has little more in conventional mainframe data processing, a few brilliantly effective but only locally successful minicomputer companies and a handful of good microcomputer companies, of which only one, Olivetti (which offers a full range of business computers), can really be considered a world-class player.

Where there have been successes they have been the result of strategic alliances. Olivetti, for example, which builds a perfectly good range of business microcomputers, markets them in the US through alliances with the telecommunications giant AT & T and the office systems supplier Xerox.

Its tiny M10 portable computer, however, is bought in from the Japanese company Kyocera and badge-labelled. The more advanced M22 was designed by Olivetti in Ivrea and by the US company Chisholm and is built to specification in Hong Kong.

In the same way, Olivetti's offering in the important fault-tolerant computer sector is bought in from Stratus, another US company, while its top-of-the line mainframes are from the Japanese electronics giant Hitachi. Versions of the same machine are marketed by the West German company BASF and the US National Advanced Systems, a subsidiary of National Semiconductor.

There can be no guarantee that Olivetti's ambitious strategies will ensure its success, but strategic alliances and more intelligent marketing approaches have sounded the death-knell for the old and discredited "national champion" computer manufacturer.

ICL of the UK, for example, at one time Europe's only indigenous mainframe manufacturer, now builds its top-of-the-range machines by courtesy of chip technology from Fujitsu of Japan.

Bull of France markets mainframes obtained from Honeywell of the US and NEC of Japan.

Siemens of West Germany markets large mainframes obtained from Fujitsu.

Lack-lustre marketing apart, Europe seems to have played almost no part in the development of the major current trends in data processing. France may have been first with the personal computer, but all the push in personal computer technology today comes from the US.

Where was the European Compaq, able to capitalise on the business need for a portable machine before IBM was ready to respond? Where is the European Apple, prepared to gamble on an unorthodox approach to computing — screen pictures or "icons" and "mice" pointers to make computing easier?

Where was the European equivalent of the fault-tolerant computer companies like Tandem and Stratus? (To be fair, however, Computer Technology of the UK has had modest local success with its own version of fault-tolerant computing.)

Where are the European equivalents of US companies like Convex, which identified a small but profitable market for very fast scientific computers somewhat less powerful than the Crays and the CDCs but at a much lower price?

The real successes in European computing are companies like Nixdorf of West Germany and Norsk Data of Norway, concerns with a powerful appreciation of market needs and careful financial management.

Yet it is hard to see how the special qualities and skills of these companies can be transmitted to the rest of the European industry.

Changes in the shape of the market offer some hope — the move to multi-user computing in the office could help local champions like ICL and Apricot in the UK, which have special skills in networking and communications.

There should also be technological spinoffs from the big European research programmes, Esprit and Eureka, which can be turned to commercial advantage.

European manufacturers are putting a great deal of faith in standards — in particular the international standard for the interconnection of machines of different manufacture — Open Systems Interconnection or OSI.

They see this as a way for the Europeans to start equal with their US competitors. IBM is already well-entrenched with its own interconnection standard for its own machines, Systems Network Architecture or SNA, which gives it a powerful advantage in corporate networking.

But IBM is already playing a full part in the development of OSI, which the European manufacturers could find less a barbican than a Trojan Horse.

Alan Cane

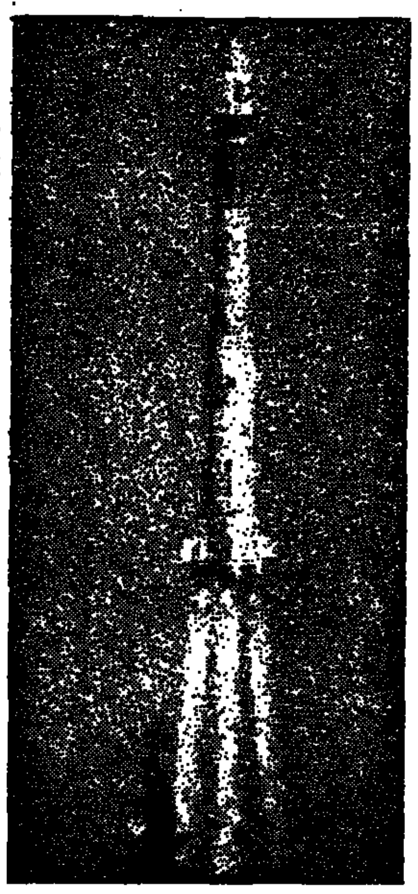
SECTION IV

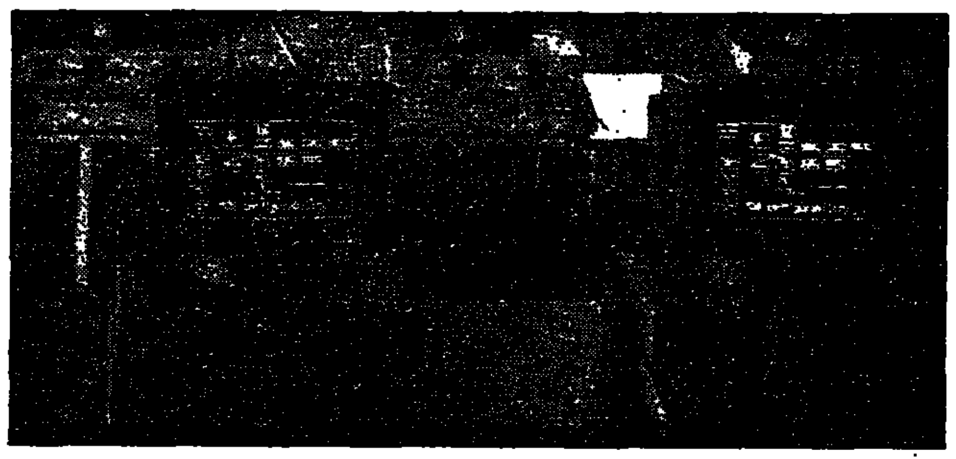
FINANCIAL TIMES SURVEY

European High Technology

Partnerships are proliferating across Europe in an effort to harness innovations for the fierce global technology race

Fresh impetus for collaboration





● Key areas for collaboration programmes include: telecommunications; information technology; defence and aerospace

By Guy de Jonquieres

EUROPE'S EFFORTS to revitalise its high-technology industries are set to receive fresh political impetus today when some 40 ministers from 18 European governments meet in London to formalise arrangements for the Eureka programme of joint industrial research and development.

Eureka, which has been in gestation for a year, is the latest and most eye-catching in a series of collaborative high-technology programmes launched in Europe with government backing in the past few years. It follows several EEC-wide initiatives—Esprit (information technology), Race (telecommunications) and Brite (manufacturing technology)—and, in the defence field, plans for development of a European combat aircraft.

Behind this urge to club together lies a growing anxiety that European industries risk being left trailing far behind the US and Japan in the fierce global race to harness and exploit advanced technologies.

In certain key areas, notably electronics and information technology, Europe's industrial position is already weak. Its computer markets are dominated by US companies led by International Business Machines: European-owned manufacturers account for a mere 10 per cent of world microchip sales; and in telecommunications equipment many European suppliers are struggling with inadequate economies of scale in an industry burdened with excess capacity.

There are bright spots, too The sales success of the European Airbus has established it as a credible competitor to Boeing; the Ariane space launcher (at least until its recent mishaps) has challenged the US Space Shuttle; and Europe can count some promising contenders in growth industries such as robotics, biogenetics and new materials.

However, the outlook overall has been judged sufficiently worrying to have pushed high-technology well up the list of policy priorities in most European capitals in the past few years. For many governments, building a strong technological base has become almost synonymous with the promotion of economic growth and competitiveness.

Beyond that, the debate has also begun to acquire more overtly political dimensions, due partly to the Reagan administration's moves to tighten control over US high-technology exports while seeking to mobilise massive resources behind the Star Wars project.

These developments have aroused uneasy suspicions that the US was bent on dominating key civil and defence technologies and on keeping a firm grip over their international diffusion. President Mitterrand's warning last year that US plans for Star Wars could turn Europe into a continent of sub-contractors struck a chord with more than one of France's neighbours.

The underlying causes of Europe's sense of vulnerability are complex and often hard to define with precision. For a start, there are few reliable measures of technological performance. Many of those most commonly used, such as R&D spending per capita or the R&D intensiveness of exports, either involve subjective judgments or are open to disputed interpretation.

Secondly, conditions vary widely between European countries. For instance, post-war policies in Britain and France have emphasised glamorous prestige projects such as Concorde or the creation of "national champion" high-technology companies—often with disappointing commercial results. West Germany, by contrast, has tended more to apply technology to improve the competitiveness of traditional sectors such as engineering.

Broadly speaking, though, Europe's problem does not lie in any critical shortage of basic technological resources and skills or of funds to support them. Its weakness, rather, has been its failure to organise properly to exploit the maximum commercial advantage from its innovations.

Some analyses suggest that Europe lacks enough high-technology companies big enough to challenge the largest US and Japanese competitors internationally. This argument, however, does not appear to stand up to close examination.

Not only do companies such as West Germany's Siemens, Philips of the Netherlands and Britain's GEC have substantial revenues by any standards. But many of the technology industries' outstanding success stories in recent years have been companies such as Digital Equipment of the US, West Germany's Nixdorf or Norway's Norsk Data, which grew fast from modest beginnings.

A more plausible explanation is that the structure of Europe's industries has remained too rigid. Its older companies have been slow to recognise that profitable growth in many high-technology sectors requires worldwide marketing resources and a readiness to experiment with novel approaches to innovation.

Many larger European companies still rely heavily on home markets which no longer provide adequate economies of scale or, in the case of Philips, have traditionally set up separate operations dedicated to each national market. That contrasts sharply with the ways in which American companies such as IBM, Hewlett-Packard or Texas Instruments have long organised themselves on an EEC-wide basis to take full

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CONTENTS

Space

Cash demands may test partnership

WESTERN EUROPE'S space activities provide a cheering example for those who argue that political collaboration in Europe over technological developments can produce positive industrial results.

Europe's extra-terrestrial ventures are focused on the European Space Agency, based in Paris, with an annual budget provided by its 11 member-nations. Each country's share is in rough proportion to its GNP.

The agency, formed 11 years ago, formulates a series of space programmes, most of the work on which is left to aerospace and other technology based companies in the member countries.

Out of this arrangement has come the Ariane rocket, launches on which are sold by Arianespace, a company based near Paris.

Despite an Ariane failure at the end of May, the fourth in 18 missions and one which seems likely to hold up further launches for next few months, the Ariane programme is widely regarded as a success which has dented the monopoly of the US in offering commercial launch services for satellites.

Other success stories in this collaborative venture are a series of telecommunications and weather satellites, and the construction of Spacelab, a re-usable set of hardware for space experiments, which travels into the heavens inside the cargo bay of a US space shuttle.

The most obvious winners from the ESA operations are such companies as MBB-Erno and Dornier in West Germany, Aerospatiale and Matra in France, British Aerospace and Marconi in Britain, and Alitalia in Italy, which gain immediately from the contracts handed out by the Paris organisation.

ESA argues, with some justification, that the work it sponsors benefits not just the big companies but a large number of smaller concerns, which gain useful expertise in a range of technologies from new materials to computers.

Ensuring pan-European participation in space technology has been no easy matter. The will to collaborate has taken shape slowly over a period of more than 20 years as the European nations have gradually ironed out their differences.

This was especially apparent at a special ministerial meeting in Rome, in January last year, which, with surprising unanimity, decided on the outline of a European space programme for the next decade. The representatives of the different countries could hardly restrain their delight at the level of agreement and the general absence of bickering.

That does not mean, of course, that all the problems are resolved. Indeed, quite a few are building up as Europe considers the details of how it should approach the next decade in space.

The first question is the matter of spending. ESA's budget for 1986 is $967m (1.099bn European accounting units). France and West Germany contribute virtually half of this, in roughly equal amounts. Italy and Britain provide 14 per cent and 12 per cent respectively, with the other members (Belgium, the Netherlands, Spain, Sweden, Switzerland, Denmark and Ireland) putting up the bulk of the rest. Three associate members—Austria, Norway and Canada—contribute 2.4 per cent between them.

National space programmes totally, under the control of the individual countries, add about another $700m to the overall space budget of Western Europe. The continent's total annual spending on space, roughly $1.7bn, looks small set beside the $15bn the US Government spend each year on civilian and military activities beyond the atmosphere.

At the Rome meeting, the ESA nations agreed to increase the budget by 70 per cent by the early 1990s. This is to take into account a string of ambitious programmes, chiefly the further development of Ariane to produce a heavy-duty version called Ariane-5 capable of taking bigger satellites into orbit, together with the construction of Columbus, an orbiting laboratory that would fit into a manned space station planned by the US for the mid 1990s.

Despite this commitment, prising the extra cash away from national treasuries over the next few years may prove difficult.

A second issue is just how quickly Western Europe should progress in space. France and, to a less marked degree, West Germany are both keen to press on with developments in establishing a European space station in the early years of the next century.

The arguments are that, by achieving a permanent manned presence in the heavens, Europe can gain experience in a variety of disciplines. These include viewing Earth with high-powered cameras for applications such as land-mapping and experiments in low-gravity materials processing, which may provide new ways to make exotic substances. Similar views have been advanced to press the case for the US space station (which the National Aeronautics and Space Administration hopes to have in orbit by 1994 at a cost of about $8bn) and for the series of more modest manned space outposts which the USSR has already deployed over the past decade.

Some observers have, however, voiced scepticism over whether these goals are realistic within the time frame proposed by the more bullish exponents of extra-terrestrial adventures.

In particular, the drive by France, Western Europe's most ambitious space power, to develop Hermes, may be frustrated for want of agreement from the other ESA nations. Hermes is a manned "mini space shuttle," which would enter orbit on top of an Ariane rocket to ferry people and materials to and from a space station.

France wants an agreement to begin the development of Hermes next year, ready for operation in 1995. But the envisaged $3bn cost — on top of $2.6bn each for the development of Ariane-5 and Columbus —may dissuade many of the Paris agency's other members from backing the venture, at least for the time being.

The most immediate difficulty for Europe concerns the details of its involvement with the US in building Columbus for the latter's space station. Under an agreement with Nasa, reached in the past three months, Columbus will plug into a port in the US station and be used for a range of experiments. Japan is to provide a similar laboratory, and the US itself a third.

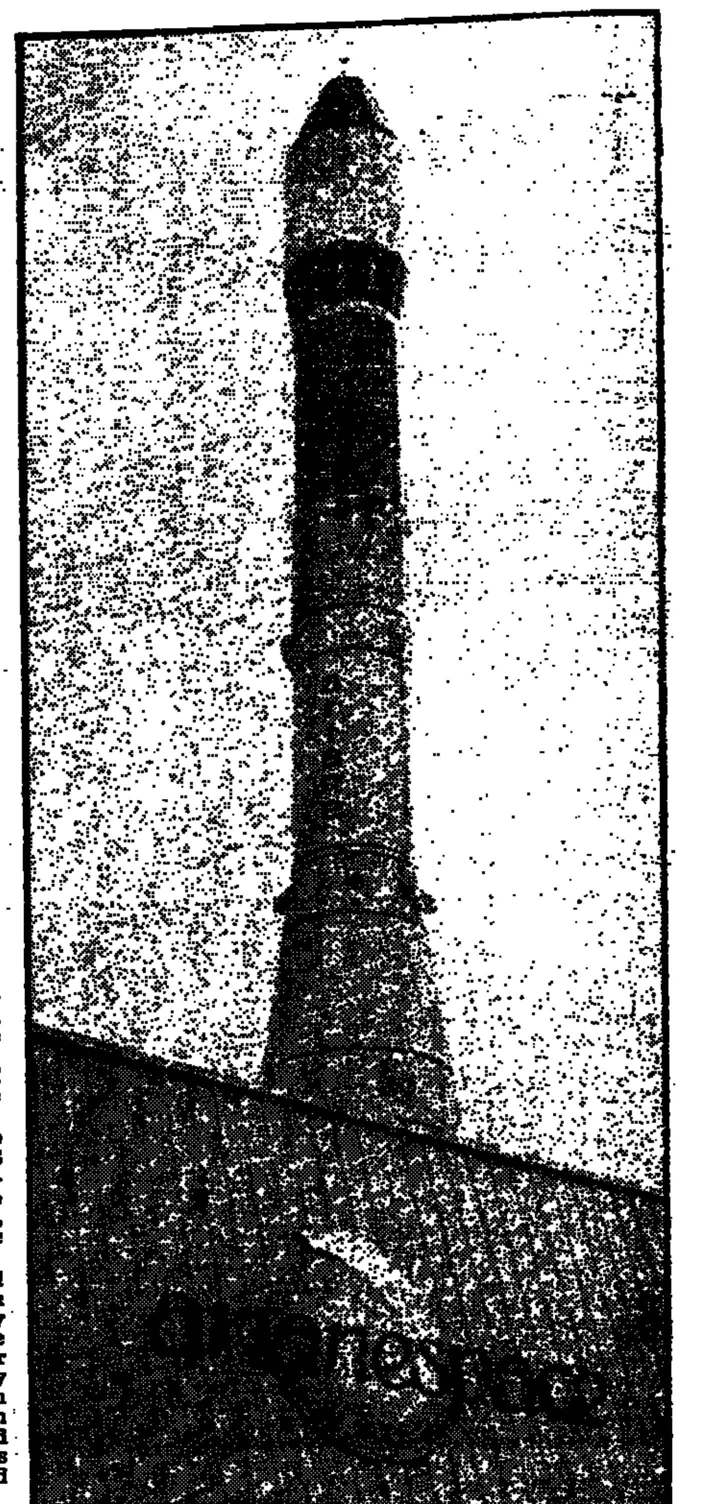
The final go-ahead to the international venture, together with a commitment to spend money on hardware development, as opposed to theoretical studies, still has to be provided by the various nations—Canada is yet another partner in the space station project — and is due in the autumn.

The ESA countries are by no means agreed on the form Columbus will take. France and West Germany have been pushing for the design to include its own propulsion unit so that the laboratory could form the basis of an independent space station not linked to the US outpost. The US is not keen on this approach, which, it says, would undermine the spirit of the international undertaking.

Whether Europe is able to collaborate truly with the US in the space station, with maintaining rivalry in other space matters—in satellite launchers, for example — remains to be seen.

Other questions to be settled include legal matters — such as which country's laws apply to legal matters in outer space —and patent rights over inventions in a space station by teams of researchers from specific countries. Some tough negotiations will be needed over the next few months before these issues are cleared up.

Peter Marsh



The European Space Organisation launch vehicle Ariane

Civil Aviation

Technical boundaries pushed back

FOR MANY years, the world's aerospace and associated industries have been the spearhead for the development of advanced technologies in such diverse fields as electronics, metallurgy, ceramics, carbon-fibres and other composite materials, automated manufacturing methods, and even in the fundamental design of advanced shapes and structures.

While these developments have been generated primarily by the rigorous requirements of complex military aircraft and engines and guided weapons, more recently the civil aircraft and engine manufacturers have themselves been initiating technological advances to meet the increasingly competitive demands of the world's airlines for quieter, more fuel-efficient and lower-cost equipment.

Although advanced technology, in many forms, is being incorporated on all of the new airliners now being manufactured in Western Europe (such as the British Aerospace 146 regional jet airliner, the Fokker F-50 turbo-prop and F-100 twin-jet airliners, and the Franco-Italian ATR series of regional airliners), it is probably Airbus Industrie that is the biggest user of these new developments.

Airbus, the airliner-manufacturing consortium that includes British, West German, French and Spanish shareholders, with associates from other countries such as Holland and Belgium also involved, has been for some time progressively incorporating new technological developments in all its products. But the latest A320 150-passenger airliner, for service in 1988-89, represents the biggest combination yet of such techniques in one commercial aeroplane.

The improvements in the A-320 range start with aerodynamic advances in wing design (stemming from British Aerospace), embodying the Airbus philosophy of small, highly-loaded wings, offering high structural integrity with a considerable weight reduction compared with conventional designs.

The result is a highly efficient wing, with weight savings that benefit the aircraft in all phases of flight. At lower altitudes the small wing area keeps drag to a minimum; while at greater heights the advanced design gives a better load distribution, in turn providing economical cruising characteristics equivalent to those of bigger wings.

The A-320 will also feature one of the most advanced electronic flight decks yet seen in any commercial airliner, with extensive TV displays of critical systems information — such as fuel states, navigational details, the functioning of engines, hydraulics and other items.

The A-320 will also incorporate "fly-by-wire" controls, in which the control surfaces (elevators, rudder, ailerons, roll spoilers and all trimming controls, together with flaps and slats) will be activated by electronic signals, instead of by conventional rods, wires and pulleys.

At the same time, the A-320 will make extensive use of carbon-fibre and Kevlar composite materials in much of its structure.

The most significant result of this combination of advanced technological developments is that the A-320, according to Airbus Industrie, will require 43 per cent less fuel per seat to fly than the current generation of narrow-bodied tri-jet airliners such as the McDonnell Douglas DC-10 and Lockheed TriStar; and between 18 and 32 per cent less fuel than the various narrow-bodied twin-jet airliners offered for short-range operations, such as Boeing 737s and McDonnell Douglas MD-80s. The consequent direct operating costs of the A-320 will also be significantly lower than those of current tri-jet or twin-engined jet airliners.

Even further advances in technology will be incorporated into the next generation of Airbus airliners now being planned for operation in the early 1990s —the 330-seat short-to-medium range A-330, and the 260-plus seat A-340 four-engined long-range airliner.

Even in the comparatively short time that has elapsed since the A-320 was ordered into production in the early 1980s, aircraft manufacturing technology has moved on; and it is now possible for Airbus to offer prospective customers for the A-330/A340 airliners further improvements.

These range from advanced aerodynamic shapes (especially stemming from the common wing that the A-330/A340 will share), to the greater knowledge and experience of manufacture and use of carbon fibre and other composite materials, and of new aluminium alloys such as aluminium-lithium, also now being employed in new military aircraft such as the UK's Experimental Aircraft Programme (EAP) and to be used in the prospective multi-national Eurofighter.

Looking even further ahead, significant advances in propulsion technology are now under development in the new generation of "prop-fan" engines, on which Rolls-Royce of the UK and Snecma, the French aero-engine manufacturers, are already working.

The prop-fan, in essence, is an extension of the already well understood principle of harnessing a propeller to a gas-turbine engine (as in the famous Vickers Viscount and Bristol Britannia airliners) to give a smoother, quieter and cheaper ride than is obtainable with pure jet engines.

The secret of the prop-fan lies in the advanced design of gas-turbine engine, giving greater thermal efficiency, and the radically redesigned propellers, which are shaped more like ships' screws than conventional propellers as understood today.

The combination of these developments results in a power-plant that will give substantial savings in fuel over conventional jet engines, thereby yielding in turn big cuts in direct operational costs, while driving the aircraft at speeds close to those of jet airliners.

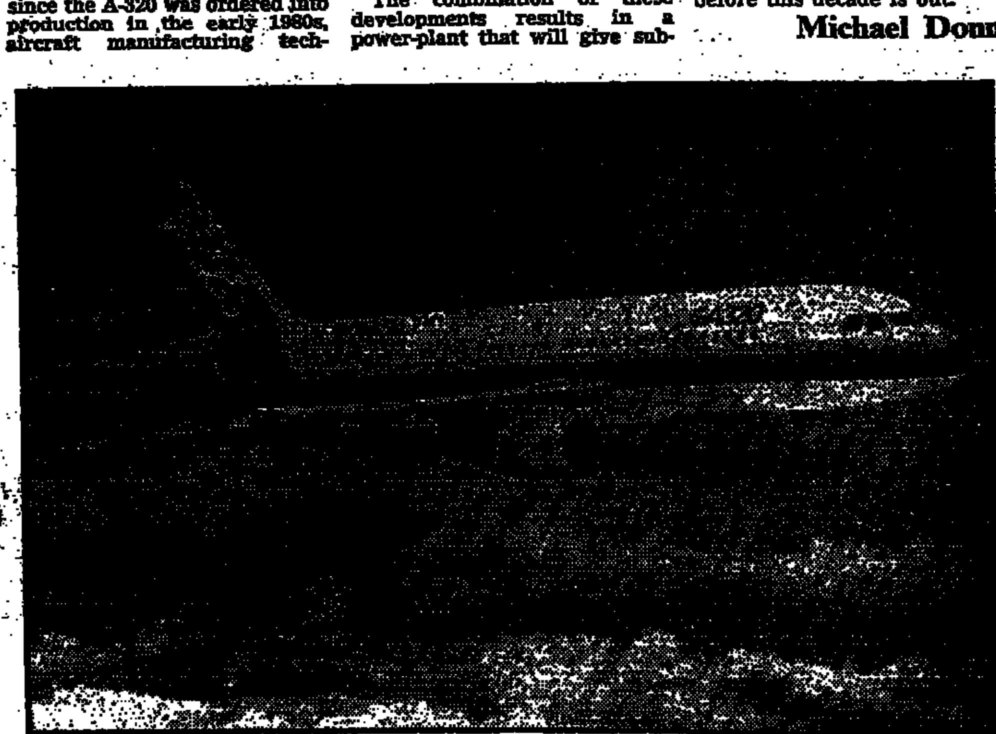
Such advantages cannot be ignored by airlines, and thus by the engine and airframe manufacturers; and, as a result, the development of prop-fans is sweeping through the aircraft manufacturing industry, but especially in the US, with gathering momentum.

Much work still has to be done, but such big airframe builders as Boeing and McDonnell Douglas, and engine companies such as Allison Division of General Motors, General Electric and Pratt & Whitney, are already promising prop-fan airliners of various types for the early to mid-1990s.

Snecma of France has teamed with GE of the US on the "unducted fan" (UDF) engine, which is to be test-flown this summer in a Boeing 727 flying test-bed. Rolls-Royce is working on various prop-fan designs, including the RB-509 for smaller aircraft for service in about 1994, with an engine for bigger for bigger airliners, such as Jumbo jets, for service later in the 1990s, called the RB-529.

But the pace of development of prop-fan engines is accelerating, and it may well be that many airframe manufacturers in Western Europe, who are at present behind their US brethren in proposing airliners using this form of propulsion, will have to revise their ideas before this decade is out.

Michael Donne



The Airbus A320 represents the biggest combination of new technology in a European commercial aircraft

Military Aviation

Flying testbeds show quantum leap

PLANS for two new European multi-national advanced tactical combat aircraft are being pushed forward. One is by the UK, West Germany, Italy and Spain, called the Eurofighter; the other is by France, with possible collaboration from Holland, Belgium and others. Aerospace industries of those countries are already hard at work on what are called the "technology demonstrators" for both aircraft.

In the UK, the latter aircraft is called simply "EAP," for Experimental Aircraft Programme. In France, the comparable aircraft is called the Rafale. Both are due to fly this summer, but it is stressed in both the UK and French aerospace industries that they are not intended as specific prototypes for the fighting machines that will follow later.

Rather, both EAP and Rafale are intended to prove to the governments that will have to put up the money that the European aerospace industries are more than capable of bringing together all of the advanced technologies that will be needed for the new generation of fighter aircraft planned for the mid-1990s.

Thus, the term "technology demonstrator," coined for this new breed of experimental aircraft, means precisely what it says. In both the EAP and the Rafale, there are combinations of a wide range of advanced aerospace technological developments, in the shape of new materials and new electronic systems, while both aircraft have also been built with the aid of new manufacturing techniques.

All of those developments, on the ground and in the air, will be used in the eventual manufacture of the new tactical combat aircraft now being planned.

As a result, the technological capabilities of the entire European aerospace industry and its allied industries, such as electronics, will take a quantum leap forward.

Earlier hopes of achieving one new advanced combat aircraft, for the whole of Western Europe, foundered last year as a result of sharp differences of view as to its size, shape and performance, between the two camps led respectively by the British and the French aerospace industries and air forces.

As a result, work has been pushed ahead in the two separate camps; and it is becoming increasingly clear, as the two experimental aircraft themselves draw closer to their maiden flights and the detailed project definition of their respective follow-on fighters is nearing completion, that any marriage between the two camps is unlikely, if not already impossible.

So far as the £180m EAP itself is concerned, the programme has been aimed at expanding technology in three broad areas. These are: Advanced structural design and manufacturing techniques, including the extensive use of carbon-fibre composites and other new materials; the "fly-by-wire" system of electronic control of an aircraft in flight, to ensure extreme agility in combat; and development of an advanced electronics cockpit to relieve the workload on the pilot, freeing him to fight rather than to fly.

The EAP, once past its maiden flight this summer, will embark upon an extensive series of flights designed to prove that, in all three areas, the work done so far has been successful, effectively clearing all those new techniques and processes for use in the larger and more expensive Eurofighter combat aircraft programme still being put together.

Because there is only one EAP, that flight test programme will be critically important, for the actual prototypes (the number of which is not yet settled) of the Eurofighter itself will not emerge until about 1989-90. There will be no second EAP (although it is expected that there will be a second French Rafale).

Nevertheless, the UK aerospace industry, which has been mostly involved on the EAP, with smaller inputs from the West German and Italian industries, is confident that it will be a successful aircraft.

British Aerospace, prime contractor on the EAP, says that the extensive use of carbon-fibre composites in that aircraft, has led to a reduction of up to 30 per cent in manufacturing costs, due to a reduction in the number of detailed parts.

At the same time, there has been an increase in the strength-to-weight ratio in those parts; a reduction in the volume of waste materials; and an increased ability to produce the large, complex shapes that are nowadays required in advanced military aircraft.

But advanced metals are also being used, such as aluminium-lithium, which has greater strength and stiffness than other aluminium alloys, but with a substantial saving in weight and a higher level of corrosion resistances. Titanium is also being extensively used, but in conjunction with new manufacturing and forming techniques, such as superplastic forming and diffusion bonding.

Superplastic forming is derived by heating titanium (and certain alloys of steel and aluminium) to about 30 per cent of melting point, whereupon it can be moulded more easily into complex shapes. Diffusion bonding involves joining titanium alloys at critical temperatures, so as to produce complex shapes that are competitive in terms of cost and weight with carbon fibre composites.

Supporting these developments has been an advanced manufacturing technology programme on the ground, which makes extensive use of computer-aided design and manufacture (CAD/CAM), together with extensive automation through numerically-controlled machining and the use of robotics.

The result is that the complex shapes needed for advanced military aircraft can be produced in one-fifth of the time previously required, with savings of up to 70 per cent in unit costs and big reductions in stocks and the amount of work in progress.

Aboard the EAP itself, the "fly-by-wire" system simply means using electronic signals in place of conventional wires, rods and pulleys to activate an aircraft's controls. As a result, the control surfaces (rudder, ailerons and elevators) and even entire wing sizes, can be made smaller, because they become more efficient. This in turn leads to reduced drag, requiring smaller, lighter engines burning less fuel to do the same job.

Similarly, the advanced cockpit devised by the electronics industry for the EAP will make life much easier for the pilot, by enabling him to read critical information about his aircraft's functions on coloured cathode ray tubes instead of on myriads of dials. He will also be able to call up information at the touch of a button, as a result of the extensive use of small, on-board computers.

All these developments will have considerable significance not only for military aviation—for they will influence other aircraft besides the new generation of advanced fighter aircraft now planned—but also in civil aviation. Already, much of the work done on the development of new techniques for military aircraft is spilling over into civil aircraft development and production, and this trend can be expected to accelerate in the years ahead.

What is also significant is that the forthcoming generation of new tactical combat aircraft will be the last such aircraft types this century in Western Europe—the costs of such developments will preclude any additional fighter aircraft programmes until well into the next century.

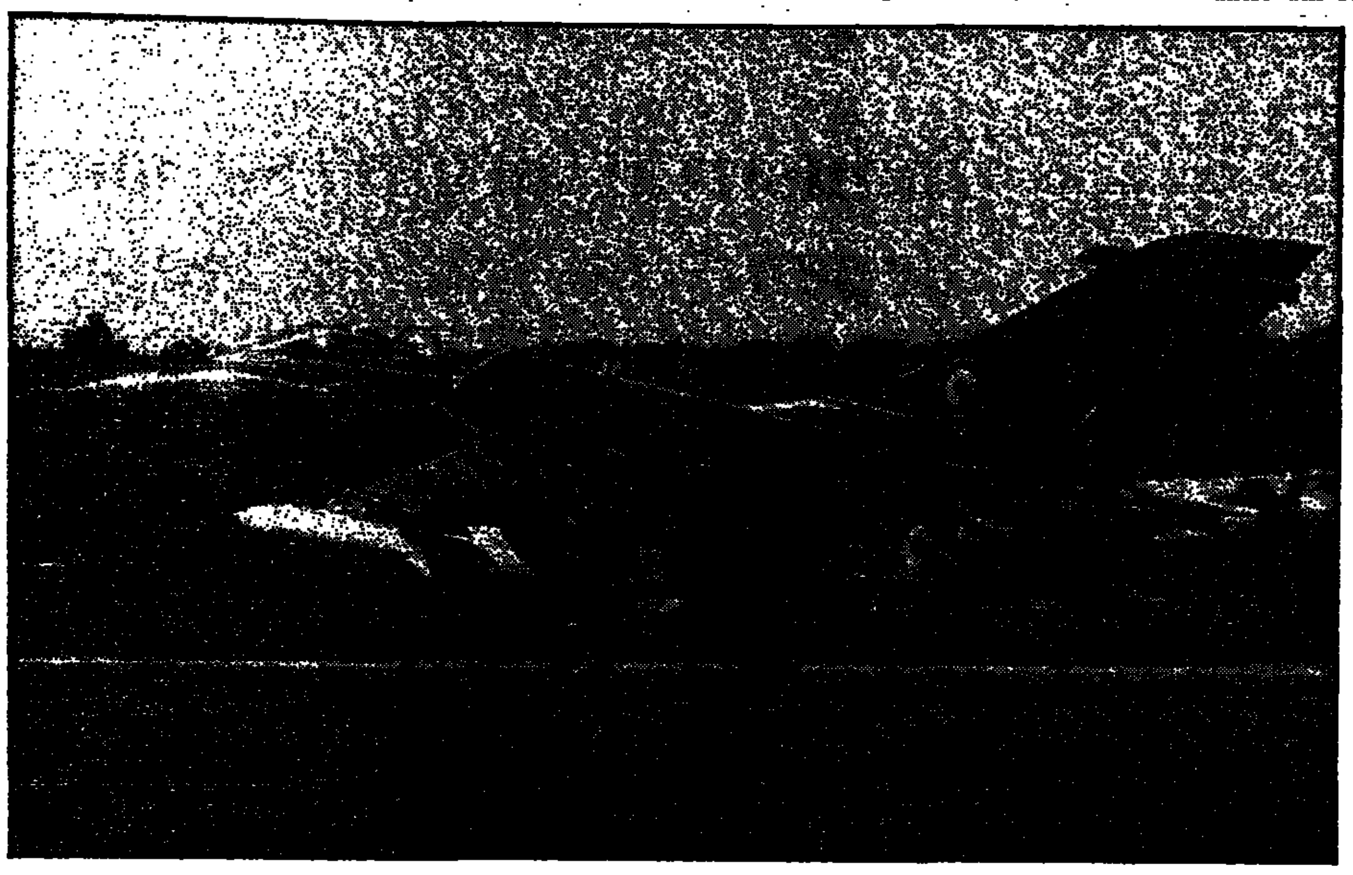
For that reason, what is being done now, under military budgets, to develop new techniques of manufacturing and in airborne technology, will be substantially what prevails in the aerospace industry for the best part of the next 20 years.

This simple fact is driving the aerospace industries of Western Europe hard in the search for new techniques of manufacture, new materials and new ways of flying.

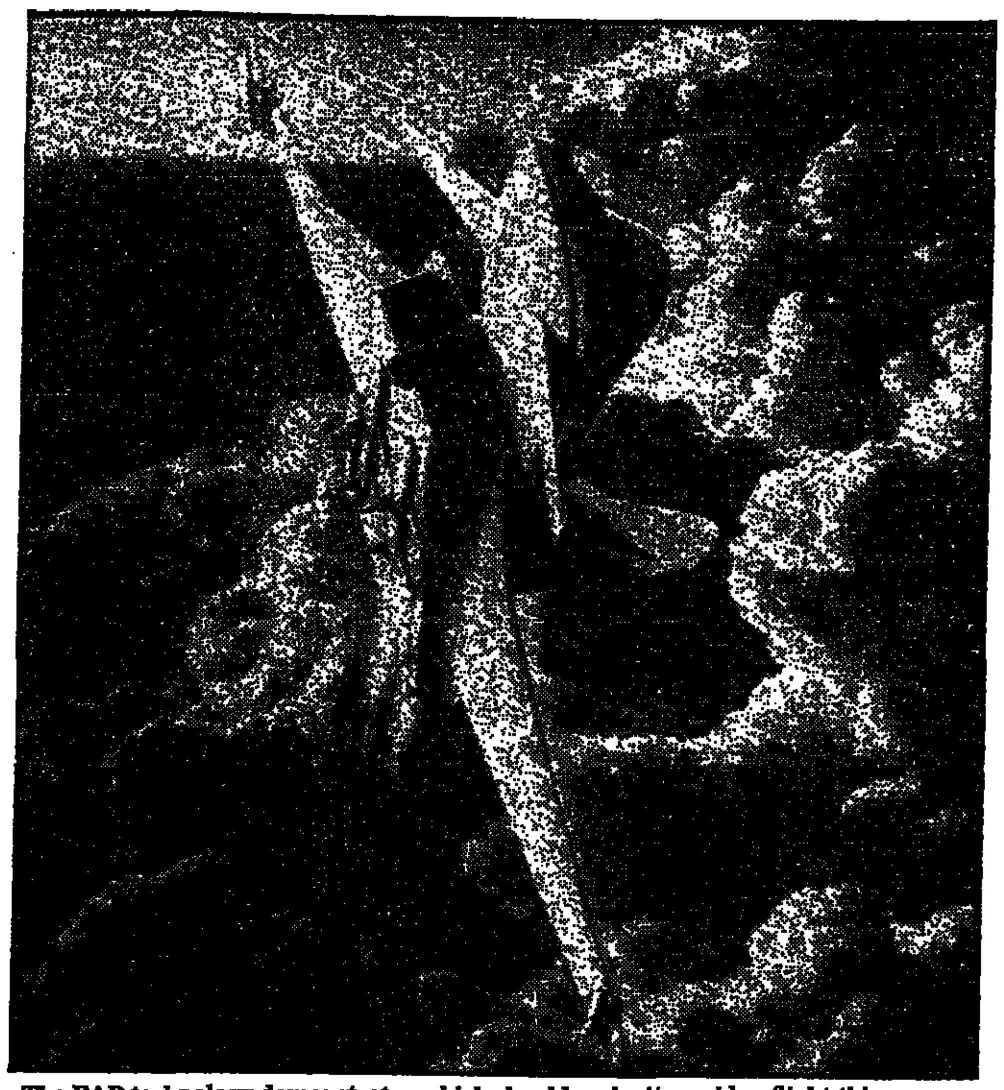
While it would be wrong to suggest that, between now and the end of the century, there will not be substantial further advances in aeronautical engineering and technology, those that do emerge (outside the EAP and the Eurofighter) will probably have to be largely funded privately by the aerospace industry itself, for military research and development budgets will be severely restricted.

For this reason alone, the entire aerospace and ancillary industries in Western Europe are putting much faith not only on the EAP and the subsequent Eurofighter, but also on its rival in the French aerospace industry.

Michael Donne



The Tornado multiple-role combat aircraft, produced for the UK, West Germany and Italy



The EAP technology demonstrator which should make its maiden flight this summer

Biotechnology

Tailoring to commercial needs

Gerard Fairtlough, chief executive of Celltech, the UK "bio-entrepreneur"

BIOTECHNOLOGY IS an amalgam of skills in cultivating live cells and micro-organisms developed to a high degree of perfection by the pharmaceutical industry in its search for new antibiotics, cortiscosteroids and vaccines. With the arival of genetic enginering and monoclonal antibodies in the mid - 1970s, opportunities emerged to tailor products more precisely to the commercial need, and to expand the horizons of biotechonolgy.

The companies which recognised clearly how long and costly was the journey to market for the products of the new biotechnologies were those which had already exprienced the agonies of introducing the older ones. Those who spearheaded the drive to exploit the new biotechnologies, however, were entrepreneurs unhampered by earlier experience and driven only by their confidence of solving some of medicine's more chalenging problems.

Those few who sought to marry experience with the new "cash flywheels" — something that would ensure steady revenue from biotechnology to meet the vocious appetite of the new science. ICI put its faith in a new animal fedstuff, Pruteen, produced by the large-scale cultivation of a bacterium fed on methanol. Technically, it was a tremendous achievement but commercially it ran foul of a changing commodity market.

A more recent attempt to create a cash flywheel has come to grief in Sweden, where an entrepreneur, Mr Refaat el-Sayed, built his company Fermenta from under-utilised antibiotic production capacity. By 1985, the company although rooted firmly in traditional biotechnology—was a stockmarket star and re-investing its profits in front-line biotechnologies. Then it ran foul of public opinion in Sweden.

"We were young, ambitious and naive . . . we were offered phenomenal salaries, taxes were low, ski slopes half an hour away," writes a researcher recruited by Biogen in Geneva.

Refaat el-Sayed, who built up Fermenta

Back in England, three years later, the scientist was accusing the new biotechnology firms of failing "to recognise the hype for what it is." They were selling dreams and believing their own propaganda, this disgruntled researcher told New Scientist.

Biogen was an attempt to repeat in Europe a formula pioneered in California for finding fast tracks to translate front-line science into profit. Interferon was its most exciting prospect and, scientifically, it achieved wonders in turning the discoveries of Zurich University into commercial products.

Clinically, however, interferon is proving a far more complex and troublesome agent to use than can be permitted in a cash flywheel. Far from proving a panacea for widespread ills, each aplication is requiring painstaking research to establish a regime that may benefit a few patients.

No readily recognised pattern can be distinguished in Europe's progress with the new "enabling technologies" of biotechnology. Nor is there any strong evidence yet of a common will to meet the evident threat of Japanese and US enthusiasm for the commercial potential.

European science offers some excellent opportunities—one is the work of the Pasteur Institute in France on the diagnosis and prevention of Aids—but the best chance of success for European new biotechnology firms seems to lie in good deals with US and Japanese companies.

Celltech, the leading British response to the crop of Californian bio-entrepreneurs, has secured in only five years a significant cash flywheel by applying UK academic skills in making monoclonal antibodies on a scale no-one else can yet match, and exploiting this talent in the US market.

The revenue helps sustain its cash-hungry research programmes for the development of novel pharmaceutical products. These, too, are based on the efficient transfer of science from academic establishments into Celltech's own laboratories. Still more important, perhaps, the revenue has helped to convince its shareholders that this is a genuine business and not just another "research boutique."

Celltech is the star of a small crop of perhaps two dozen new biotechnology companies in Britain born since 1980. Elsewhere in Europe such firms are rare. "We don't have too many proposals," acknowledges Mr David Leathers, investment director of Biotechnology Investments, the N. M. Rothschild trust specialising in biotechnology shares. Of about 30 unquoted investments, only two so far—in Belgium and Denmark—have been backed by the trust in the whole of continental Europe.

But Europe has several older-established biotechnology companies with world reputations in specific techniques, including Pharmacia in Sweden with separation technology sought by almost every new biotechnology company. Gist-Brocades is a research-based Dutch business specialising in enzyme technology, an enabling technology which it applies successfully to a spectrum of industrial activities from food processing to the clean-up of wastes. Nova in Denmark is known worldwide as a dependable source of insulin and of industrial enzymes, both requiring high biotechnology skills.

One new British biotechnology company, Agricultural Genetic Company (AGC), of Cambridge, has found European backing for its venture into the genetic manipulation of crops, to improve productivity, pest resistance, hardiness and freedom from disease. Its science is drawn predominantly from institutes of the government-funded Agricultural and Food Research Council. Its commercial backing includes such European groups as Danish Sugar and Ciba-Geigy, the Swiss chemicals company.

AGC is also a member of a new kind of consortium that Britain is pioneering, to try to persuade the agri-food industry to take a longer-range view of research than it has done traditionally. Of the 15 founding members of this biotechnology research consortiums, 11 are companies, among them such European multinationals as Ciba-Geigy, ICI, Royal Dutch-Shell and Unilever. The other four are British academic institutes, which are participating in a joint research programme funded equally by the 11 companies and the British Government.

The target of this research is a plant gene "toolkit" and user's manual, which would permit any user to make radical changes in the genetic make-up of some of Europe's more valuable crops. If it succeeds, the companies will be free to exploit the new enabling technology in any way they wish. The four crops are wheat, barley, peas and rape oil seed.

Other agri-food initiatives of the same kind are already taking place. One is a six-member club to study the technology of enzyme supplements for animal feedstuffs. Another—just a gleam in the eye at present—is a club that will study the limiting factors on the performance of crops.

David Fishlock

Cell culture processing to produce monoclonal antibodies

Materials

Industrial progress may depend on novel range

WHILE ERAS of industrial expansion over the past 200 years have been founded on applications of wood, metals and plastics, future progress in industrial activity may well depend on a range of materials, including novel forms of ceramics, polymer alloys and composites reinforced by exotic fibres.

R & D spending on engineering ceramics (1985)

	$m
Japan	300
US	100
West Germany	5
Sweden	0.5
UK	3
France	5

Source: IAL

The new materials are unlikely ever to replace the more traditional substances in every part of, say, a car, machine tool or computer. Increasingly, however, crucial and high-value components of such mechanisms will be made using relatively small quantities of the novel materials. These will be chosen either for useful structural properties, such as low weight and high strength, or for specific electronic characteristics not found in traditional substances.

Examples of such trends in important world markets include the growing use of carbon-fibre composites in items such as structural components for aircraft, the arms of record players and co-ordinate measuring machines, parts of X-ray machines and high-strength fishign rods.

Ceramic materials, such as aluminium oxide, silicon carbide and silicon nitride, are finding applications in areas where high strength and good heat resistance are needed; for instance, in components of gas turbine and internal combustion engines.

New combinations of polymers, set in strong fibres such as aramid, are in wide use in the car industry for items like body panels; while novel electronic materials can be seen in crucial components of mechanisms, ranging from TV sets to military radar.

Where does Western Europe stand in novel materials? In the important area of engineering ceramics, which account for annual world sales of about $6bn this year (a figure forecast to treble by the early 1990s, Europe is some way behind the US and Japan, both in terms of use of the substances and in research and development.

In other areas—thermoplastic composites, for example—the picture is less gloomy. According to a recent series of reports* from IAL, a London-based consultancy, the European car industry, particularly in West Germany, has made important strides in these materials in recent years. Applications of the substances may be starting to spin out from this sector into other areas of industry, including electrical machinery and domestic appliances.

In electronic materials, such as chemicals based on elements like gallium and indium, for use in optical fibre transmission and other applications of optoelectronics, Europe is again in a reasonably good position. In theory, the continent's generally strong chemical industry should be well placed for moving gradually into the development of other materials useful for their electronic properties, liquid crystals, useful in computer displays, and small-screen TV sets, for example.

Of all the exotic materials that are finding novel applications around the world, engineering ceramics stand out as being particularly versatile. Ceramics, many of which occur naturally and are defined as non-metallic inorganic crystalline solids with good heat resistance, have been used for thousands of years in applications such as bricks and pottery.

Engineering ceramics are those forms produced by non-traditional processes, and in which developments centre mainly on finding novel mixtures of elements to provide a substance of a chosen property.

Using processes such as hot isostatic pressing (where granules of materials like oxides of magnesium, aluminium or zirconium are fused under controlled conditions) and sol-gel processing (a chemical method of achieving the same end), scientists can produce a range of ceramic materials that exhibit characteristics almost to order.

The strength of ceramics and their resistance to heat and wear are offset by their extreme brittleness. So efforts are under way to reduce their tendency to snap by finding the right mixture of elements in the crystalline matrix that will create maximum resilience. Partially stabilised zirconia (which contains minute amounts of yttria or magnesium oxide) is especially good at resisting the formation of cracks.

In Western Europe, according to IAL, applications of engineering ceramics in wear-resistance account for 45 per cent of the total market, which is thought to be worth roughly $700m a year. Such applications are in the cutting elements of machine tools and in other engineering components, such as welding pins, balls, valves and sealing rings.

Another important user of the materials is the electronics industry. It buys ceramics for applications in substrates for integrated circuits and in housings for diodes and thyristors. Heat-resistant ceramics (used, for instance, in furnace linings) and ceramics used for their chemical inertness (in hip joints and other biomedical "spare parts") are also important. Among the important producers of engineering ceramics in Europe are Hoechst Ceramtec in Germany, Rhone Poulenc and Pechiney in France, and Morgan Matroc and Fairey Tecramics in the UK.

In the area of composites, fibres made from glass, carbon or aramid are used to reinforce other materials. Once again, composites are anything but new—straw-reinforced bricks and plaster laid on a mat of reeds have featured in buildings since prehistoric times. It is the combination of different types of materials in a wide range of composites that is new.

Usually, the fibre is embedded either in a thermoplastic (a polymer such as a polycarbonate, or a polyamide which softens on application of heat in a reversible process) or a thermoset plastic, such as an epoxy, which sets hard in an irreversible, curing process. Finding the right ingredients for a particular job can be a daunting challenge.

Frequently, computer-aided design is used to ensure the optimum layout of the reinforcing fibres in the mixture; for example, to give a substance that is as strong and light as possible. Often, the novel substances are much more expensive than conventional materials such as metal or alloys, and such design methods permit them to be used sparingly but to maximum advantage.

Leading European companies involved in thermoplastic composites include chemical concerns such as ICI, Bayer and Basf (which provides the polymer base for the materials), and Specmat, Fothergill and Harvey, Symalit and ATO (which produce either the woven reinforcement or the finished composite).

Aerospace and car companies, such as Aerospatiale, British Aerospace, Porsche, BMW and Audi, are also building up strengths in fabrication of the completed substance.

*Advanced Engineering Materials in Europe. Reports on Ceramics and Thermoplastic Composites. £6,000 for two reports. IAL, 14, Buckingham Palace Rd, London SW1W 0QP.

Peter Marsh

BASF invested DM 1.36m in R&D in 1983

Government R & D Funding as % of GDP

	1981	1982	1983	1984	1985
Austria	0.50	0.52	0.53	0.53	0.55
Belgium	0.62	0.63	0.58	0.57	—
Denmark	0.49	0.47	0.51	0.50	—
Finland	0.57	0.60	0.61	0.62	0.63
France	1.31	1.32	1.41	1.47	—
Germany	1.15	1.21	1.14	1.13	—
Greece	0.21	0.20	0.22	0.13	—
Ireland	0.40	0.39	0.41	0.39	—
Italy	0.65	0.64	0.71	0.72	—
Netherlands	0.98	1.06	1.01	0.97†	0.94†
Norway	0.75	0.79	0.77	—	—
Spain	0.27	0.28	0.26	—	—
Sweden	1.15	1.22	1.31	1.31	—
UK	1.41	1.33	1.33	1.35	1.34
US	1.15	1.19	1.18	1.22	1.30
Japan	0.64	0.63	0.63	—	—

Total R & D Spending as % of GDP

	1981	1982	1983	1984	1985
Austria	1.17	1.22†	1.23†	1.25†	1.27†
Belgium	—	—	—	—	—
Denmark	1.07	1.13†	—	—	—
Finland	1.19	—	1.32	—	—
France	2.01	2.10	2.15	2.22†	2.27†
Germany	2.48	2.58†	2.58†	—	—
Greece	0.21	—	—	—	—
Ireland	0.75	0.75	—	—	—
Italy	1.01	1.04	1.20†	1.19†	—
Netherlands	1.88	1.98	2.03†	2.00†	—
Norway	1.29	—	1.41†	—	—
Spain	0.39	—	—	—	—
Sweden	2.22	—	2.47	—	—
UK	2.42	—	2.27†	—	—
US	2.51	2.66	2.70	2.70†	2.80†
Japan	2.37	2.47	2.61	—	—

Source: OECD/STIIU Data Bank—September 1985. † Estimates.

Research and Development

Greyhounds and tortoises of spending

TWO UNDERLYING fears frequently crop up when the future of science-based industries in western Europe is under discussion.

The first concerns the type and amount of research and development carried out within the continent. The worry is that Europe may not be doing enough to replenish its reserves of scientific expertise, compared with Japan and the US.

The second fear is over how the results from research and development are diffused into industry in the form of new products or processes. According to many observers, for a variety of reasons, more connected with culture and tradition than with technology, Europe has more difficulty than Japan and the US in making this process as smooth as possible.

First, the levels of cash themselves. The bald statistics are that each year western Europe invests in R and D about 12 per cent less per head than Japan, and slightly more than half the comparable sum in the US. Of the $200bn or so that the developed world spends yearly on R and D, the US, western Europe and Japan divide up the cake in the rough ratio 5:3:2.

Of greater importance than this snapshot view of the statistics is that while Europe has been in recent years increasing its R and D spending at the plodding rate of 4 per cent annually, research investment in the US and Japan has been shooting up at about 6 per cent and 10 per cent a year respectively.

These figures hide, however, who in Europe are the greyhounds and who the tortoises. Between 1967 and 1982, according to an analysis* by Pari Patel and Keith Pavitt, of the Science Policy Research Unit at Sussex University, Ireland, Sweden and Belgium all increased their R and D spending at a creditable rate of more than 6 per cent per annum.

France, West Germany and Italy had reasonable increases over this period of 5-6 per cent a year, while the worst performers were Holland, Switzerland and the UK — which managed annual R and D rises of just 1.5, 1.2 and 0.9 per cent respectively. If these last three countries could improve their performance, then the overall position of Europe in R and D would look a lot better.

The picture in Europe not only varies between individual nations but between specific industrial sectors, as the SPRU researchers discovered. By an analysis of patent statistics, Patel and Pavitt found that, in areas such as chemicals, machinery, cars and aircraft, European research was holding up pretty well compared with its international rivals.

Businesses in Europe are, as a result, in a favourable position — at least if they can manage the transition between research and products — to exploit advances in newish areas related to these disciplines, food sciences, biotechnology and some aspects of factory automation for instance.

According to the SPRU results, the US is strong in research related to natural resources (gas and oil, for example), metals, farm machinery, electrical wiring and aircraft; and weak in plastics, engines and industrial chemistry. European weaknesses include just the areas where Japan is strong — instruments, radio and TV, electronics and office computing.

On the question of commercial gain from research cash, there is general consensus that throwing large sums of taxpayers' money at science and technology is not enough. The political emphasis, instead, is on a variety of mechanisms under which companies and research organisations across Europe can pool some of the costs of research, and also get together to ensure that the R and D is properly exploited.

Other ideas are to cajole, by a series of measures, more private concerns to invest cash in research, and to bring technology-orientated companies closer to academic research groups in the hope that this will lead to a greater level of innovative activities.

One result of these general sentiments is the 18-nation Eureka programme, launched just over a year ago on the initiative of France.

Under Eureka, companies from different European countries are due to work together on a series of projects in advanced technology, financed by varying proportions of government grants and cash from industry itself.

So far, 26 individual Eureka projects have been approved, spanning technologies like computers, health care, lasers, factory automation and new materials. Total spending on these projects—more are due to be announced at a special inter-governmental meeting on Eureka in London at the end of this month — is estimated at about $750m.

Collaborative work in R and D is also at the heart of new European Commission plans to boost its own research spending over the next five year.

The commission wants agreement from the 12 EEC states to increase its yearly spending from the current level of about $950m (1bn European currency units) to almost twice this sum over the years 1987-1991. Projects such as Esprit, in which universities and companies work jointly on research projects related to electronics, would be the main beneficiaries of the new programme.

Of interest to R and D planners is that the amounts of cash put into the activity by private industry varies markedly from country to country. In Japan and Germany, businesses contribute about 60 per cent of total R and D; in the US, the figure is 50 per cent (and rising); while, in France and Britain, industry manages to stomp up only about two-fifths of the total bill.

Measures to persuade more industrialists — and their shareholders — that putting cash into research is an activity worth pursuing could pay off hugely in both France and Britain, both by increasing the total sums spent and in ensuring that a higher percentage of the total is geared to projects of real commercial significance.

* *Measuring Europe's Technological Performance: Results and Prospects, by Pari Patel and Keith Pavitt, Science Policy Research Unit, Sussex University.*

Peter Marsh

Robb Wilmot (left) and Robert Heikes, leaders of European Silicon Structures

Venture Capital

Fund crosses frontiers

VENTURE CAPITAL is held by European politicians to be a potentially important aid in attempts to catch up with the US and Japan in the commercial exploitation of high technology.

Having seen how US venture capital has played a part in the rise of such important companies as Apple Computer, Wang Laboratories or Compaq, Europeans are naturally keen to repeat the process at home.

In Europe venture capital is still in its infancy compared to its US counterpart, however, and unlike the US risk investment industry it faces the problem of how to help its small high technology investments to tackle the national barriers and differing technology standards within Europe.

The European Commission recently sponsored two transnational technology funds, but the idea of using venture capital to foster cross-frontier links between small high-technology companies or to form pan-European start-ups on a scale to compete with US equivalents generates more idealistic talk than action.

A notable exception came last year with the formation of European Silicon Structures, a $65m European custom microchip start-up venture with operations in Britain, France and West Germany.

Led by Dr Robb Wilmot, former chairman of the British computer group ICL with Mr Robert Heikes, head of the US group National Semiconductors' European operations, the enterprise raised funds in six European countries and is among the most visionary high technology risk investment ever attempted in the Community.

The impact made by European Silicon Structures was also a reminder of the venture capital industry's most often heard complaint; that good-quality technology investments are pitifully few.

Some more experienced funds are responding to this problem by creating their own deals, recruiting managers to put into effect an internally generated business plan. Advent, the London-based venture capital group, for instance, took a large part in putting together European Silicon Structures as well as investing in it.

But not many other European venture capitalists have the experience to do more than appraise whatever investment proposals happen to drop on their desks.

The perceived shortage of good quality proposals is illustrated by a survey by the European Venture Capital Association, which estimated that a little over half of the Ecu 7bn (£4.3bn) of venture capital available in the community was actually invested in small businesses.

The report said that although syndication of investments between European countries was getting more common. "The tendency is still to conclude arrangements with national partners."

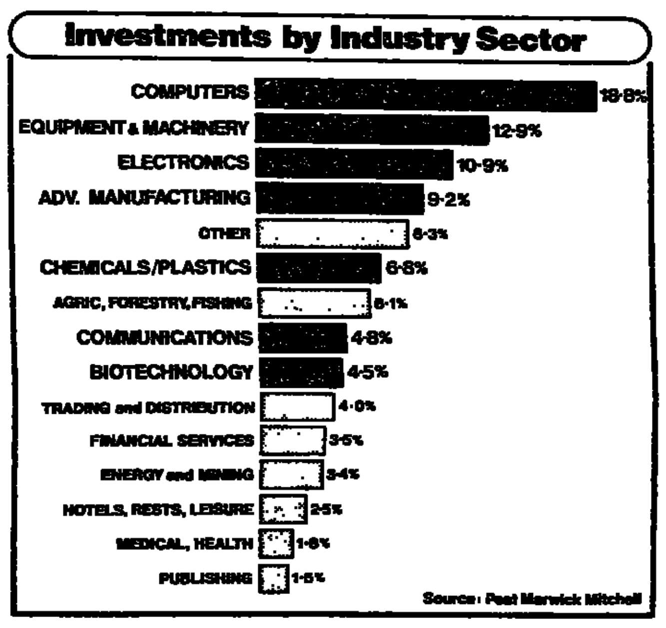
It pointed out that Ecu 1.5bn was invested by European venture capitalists in the four years to 1984—representing 2,000 transactions—of which Ecu 821m was syndicated in 808 deals. Just over 10 per cent by value of those deals were made with foreign partners, the survey suggests.

To put that into perspective, internationally syndicated investments account for roughly 20 per cent of US venture capital, where if anything the pressure on small high-technology companies to attract overseas investment should be less because of the vast size of the US market.

As a mark of its relative newness in the Community, venture capital represents a much smaller part of most European economies—except for Britain—than that of the US. The EVCA survey points out that European countries put on average just 0.19 per cent of gross domestic product (GDP) into venture capital in 1984, less than half of the US proportion of 0.41 per cent.

Britain, however, which comes out in the survey as by far the largest venture capital industry in the European Community, channels an impressive 0.69 per cent of its GDP into venture capital, a figure that has since been pounced on with glee by several UK politicians.

A breakdown of the industrial sectors that have received risk investment suggests that even if projects of the right quality are few, high-technology companies are getting a fair share of the venture capital disbursed. According to EVCA, computers and related products account for 19 per cent of European venture capital investment, followed by equipment and machinery with 13 per cent, electronics with 11 per cent, and advanced manufacturing techniques with 9 per cent.



Some critics argue that while European universities and research establishments are teeming with bright ideas, the problem is that venture capitalists are too averse to risk.

Just how difficult it is to encourage investors to take the kind of risks required for technology funding is shown graphically by the teething pains experienced by the UK Business Expansion Scheme. Set up in 1984 to foster individual risk investment by offering private investors tax relief for backing unquoted ventures, the BES followed the troubled Business Start-UP Scheme, which was disbanded because it was so restrictive that it attracted scant interest.

The BES certainly attracted more interest than its predecessor — £241m invested in 1,400 companies in the BES's first two years—but only a small fraction of that has gone into the riskier high-technology investments.

Meanwhile, a growing proportion of British institutional (as opposed to individual) venture capital is being attracted by the current fashion for management buy-outs of large established ventures, typically with no technology risk. Buy-outs took 38 per cent of UK venture capital last year, up from 28 per cent in 1984, according to the research consultancy Venture Economics.

The danger, says Venture Economics, is that the opportunities to make quick profits afforded by buy-outs could divert investment away from early-stage ventures, which could be bad news for entrepreneurs, seeking to finance the commercial exploitation of new technologies.

Will Dawkins

Collaboration

Sceptics set for fight

EVERYONE AGREES on the problem but few can agree on the prescription. That is the classic dilemma for European co-operation on research and development in new technologies.

Europe is in danger of falling far behind the US and Japan in the development of advanced technology, whether computers, bio-technology, or telecommunications. *Over five years,* the US is likely to spend about Ecu 1,000bn (almost the same figure in dollars) on research and development, *Japan* about Ecu 330bn, and all the 12 member states of the EEC combined about Ecu 430bn. In per capita terms, the Community *is* far behind.

The European Commission argues that part of the solution is a big expansion of co-operative programmes financed from the Brussels budget, designed as a seedbed for other projects across the Community. It plans to more than double research spending in the budget, from the present Ecu 3.7bn from 1984-87, to a five-year programme costing Ecu 10.3bn in 1987-91.

The response of at least three key member states has been sceptical. Britain, France and West Germany—the three who *will end up as the major contri*butors—are likely to try to cut those plans back by at least half. That battle is set to rage in the EEC Council of Research Ministers for months.

The sceptics have two major criticisms: they fear the hand of the Brussels bureaucracy, compounded by institutionalised multi-national decision-making; and they are dubious about the merits of simply pumping public money into officially-inspiried programmes.

France *falls mainly into the* first category, and was the original inspiration of the alternative Eureka programme, *designed against the opposition* of Brussels to be an inter-government programme outside the EEC system.

Britain shaares that concern —and the government also doubts the wisdom of simply "throwing money at the problem." They believe the answer for European R & D is to improve the competitive environment for high technology industries, so that the private sector will invest without needing any money *from* the state.

The Commission does have support from many of the other member states, *including Italy* and the Benelux countries. They see the opposition of the "Big Three" as national self-interest of countries which would be carrying out high technology research anyway, and do not want to share it.

The argument they put forward is that, in the words of the Commission, "no single European country, however big, . . . is capable of facing up to today's technological challenges on its own."

There is, moreover, a division of opinion in the UK about the merits of European research programmes. More *comes back to Britain than the* Treasury pays out, because more research-based companies are based there. An increase *in the research budget would* therefore be one way of reducing Britain's net contribution to the Community.

The Commission strongly rejects accusations of excessive bureaucracy, or that it is proposing anything excessive in absolute spending on co-operative programmes.

To get around the rigid lines of responsibility between different divisions, it created the Information Technology Task Force under Mr Michel Carpentier, with the prime objective of promoting its flagship programme: Esprit (the European Programme for Research and *Development* in *Information* Technology).

Most participants have been enthusiastic about the achievements of Esprit, intended to finance co-operation schemes for pre-competitive research: at *one remove from development* for the market.

It was initiated by the Commission and 12 key companies in the industry in 1982—Bull, CGE and Thomson of France, AEG, Nixdorf and Siemens of *West Germany,* GEC, ICL and Plessey of the UK, Olivetti and STET of Italy, and Philips of the Netherlands.

The research covers five key areas of advanced micro-electronics, advanced information processing, software technology, office automation and computer integrated manufacturing. The budget for the first phase (1984-88) is Ecu 1.5bn, of which 50 per cent comes from the participating companies and 50 per cent from the EEC.

The sort of achievements since Esprit was launched in February 1984 include:

● Development of a Gallium Arsenide chip by a consortium of semi-conductor manufacturers, including LEP (France), *Plessey* (UK), *Siemens* (Germany) and Thomson-CSF (France). This has lower power consumption and higher speed circuitry than the *traditional* silicon chip;

● Establishment of the first European standards for multi-media message handling—the Office Document Architecture, and Office Document Interchange Format;

● A breakthrough in the design of digital signal processing chips, known as a silicon compiler, a software programme which automatically converts specifications into an operational chip in less than one week.

"Esprit has created the environment for further co-operation, and the atmosphere *of mutual trust,* which *has* enabled someone like Mr Robb Wilmot to launch ES2 (European Silicon Structures)," says Mr Carpentier.

"Esprit is not enough. It is one good thing for the promotion of new technologies. Now it might find the right market conditions."

The second phase of Esprit, which the Commission wants to bring forward, would be closer to the market place in terms of project selection — as Eureka projects are supposed to be.

However, other work needs to be done in removing barriers to trade, which *is* the fundamental job of the Common Market. Agreeing on common standards for new technologies is therefore another prime function of the Task Force.

The latest programme to be launched is Race—Research in Advanced Communications for Europe—with a definition phase started last December with 31 projects costing Ecu 40m. The aim is to agree a common basis for the telecommunications system in Europe for the future—wideband communications in which voice, data, visual and text transmission will be integrated.

The intention is to define the technologies to make broad-band communications a reality by 1995, bringing together the state telecommunications bodies, manufacturers, broadcasters and university researchers.

The Commission also has Brite in its clutch of acronymic programmes to promote—Basic Research into Industrial Technologies—and a bio-technology support programme.

The new framework programme is intended to shift the emphasis much more on to such programmes concerning industried competitiveness.

The present programme allocates 47 per cent of funds to energy programmes, including nuclear energy and alternative sources. That will come down to 21 per cent in the Commission's plans.

Information technology, telecommunications, bio-technology and marine technology would take 60 per cent of the new funds compared with 28 per cent of the old.

What has to be resolved is the amount of cash member states will make available, and the relationship between Eureka (as yet rather vague) and the EEC programmes.

Quentin Peel

The Barclays Centre on Warwick science park, where private capital has linked with a UK university

Industry/Academic Relations

Speed of change and cash needs forge links

IN RECENT years, techniques to improve the flow of ideas from the academic environment to the world of industry have come under immense study all over Western Europe.

Industrial managers, politicians and local authority planners have all found they have an interest in assisting the transfer of these ideas, to bring about wealth-creating new businesses and breathe novel approaches into existing industry.

One factor behind this trend is the pace of technical change. In a number of areas, such as micro-electronics, biotechnology and the study of the physics and chemistry of materials, even the biggest companies have found it difficult to keep up with these advances using their own laboratory resources. Hence the moves by such companies as ICL in Britain, Siemens in Germany and Electrolux in Sweden to strengthen links with university research groups, in a bid to bring their existing operations new technical approaches.

It can often be in the interests of the universities themselves to seek closer contacts with companies, both to keep their research firmly linked with the needs of the outside world and to earn useful cash through industrial contracts. In the UK, Surrey University is among several academic institutes that have set up a research "club" to which individual companies can belong for a set yearly fee.

The commercial concerns which in Surrey's case include international businesses such as BOC, Grand Metropolitan and the Kuwait Oil Company, can gain quick access to research results from the university departments and can engage academic staff for one-off consultancy contracts.

Another way in which ideas from the academic world can reach the arena of industry is for the academic concerned to set up a new company to commercialise a novel strand of research.

With one eye on the record of the US, where academics generally find it relatively easy to move into business (and where the notion of a university researcher, with his own part-time company, is far from unusual), governments in Western Europe have been generally keen to encourage this type of activity.

According to Dr Nick Segal, a UK consultant specialising in high-technology companies, success by university-trained scientists and engineers in setting up in business has several effects not related simply to the economic activity in which they are engaged in the new enterprise. The success of such men and women in a new area such as computers can, he says, change people's attitudes to manufacturing activities by showing that industry can involve the very latest ideas.

Another effect is to demonstrate to people in traditional areas of industry that not all academics are interested simply in research for the sake of research.

As a result, industrialists may be less inclined to treat university employees as "boffins" with little regard for such areas as marketing and product-development, and may be more willing to make use of their ideas.

In a pattern that is now extremely visible across Western Europe, local government departments and academic establishments are becoming keener to assist the mechanism of technology transfer by the vehicle of "science parks." The name applies to any kind of industrial estate built near to a university or polytechnic campus to house commercial organisations.

The ideal notion for a science park is that ideas and people from the technology and science departments of the academic centre will spill over to the companies on the estate, helping the development of existing concerns or enabling new ones to set up. Often, science parks (sometimes called "innovation centres" or "technopoles") may be planned with the aid of banks or venture capital groups, which can provide start-up cash to new businesses.

According to a recent set of studies from the Currie Sunman Partnership, a UK consultancy, the number of parks in five West European countries increased almost fivefold between 1980 and 1985, from 10 to 47; while the number of companies and research establishments on the parks more than doubled, from 389 to 887. The countries surveyed in the reports* were Britain, France, West Germany, Belgium and Holland.

According to Currie Sunman, the chief motivators for the parks are *local authorities,* which see new businesses starting up from such ventures as providing wealth and employment that can, at least partially, compensate for the decline of established areas of manufacturing industry.

The science parks are not only places for small firms to operate. Nixdorf, the big German computer concern, has set up a large office on a science park in Berlin as a way of getting closer to research ideas at the city's university. In France, Bull and Thomson are among the companies associated with a science park at Metz; while a batch of multi-nationals, including Dow and Digital Equipment, have bases on one of France's best-established *ventures of this kind,* the grandly named International Activities Park, at Valbonne-Sophia Antipolis, near Nice.

Another sign of science parks' attempt to bridge the gap between the big and small sectors of industry is the centre set up in Britain by Manchester University.

Four large concerns, Ferranti, Granada TV, Ciba-Geigy, and Fothergill and Harvey, each have a small stake in the company running the park. The idea is that the little companies that take space on the park will strike up links not just with departments of the university, but perhaps with the bigger fry as well.

* *Studies on Science Parks: Belgium, Netherlands, France and West Germany. Total price £230, available from Currie Sunman Partnership, Cotswold, Heol-y-Parc, Pentyrch, Cardiff CF4 8ND.*

Peter Marsh

Impetus for collaboration

CONTINUED FROM PAGE 1

advantage of the Common Market.

Breaking down the long-standing barriers which have isolated European companies from each other as well as fragmenting their national markets *is an explicit objective of* Europe's rash of high-technology initiatives. All of them aim to achieve it by fostering *closer industrial collaboration.*

Esprit, the first of Europe's collaborative projects, has proven effective in creating new links between companies and academic and research institutions, requiring regular personal contacts between participants in different countries. Indeed, some of those involved believe that the benefits gained from establishing these lines of communication will exceed any technological advances achieved by the Esprit projects.

Esprit is, in any case, aimed at strengthening precompetitive research, which is not geared to specific commercial products. As a consequence, it does not attempt to address European companies' most obvious weakness, their inadequate economies of production and marketing scale.

Eureka, on the other hand, *has been conceived as more of* a "downstream" operation, intended to encourage companies jointly to develop new *products with a clearly defined* market application.

Whether this is a feasible goal is uncertain. Certainly, there *has been a rush of applications* from all over Europe to participate in Eureka. More than 100 projects have been submitted, about two-thirds in the field of information technology.

But many aspects of the programme are still unclear, not least what it means to be a Eureka project. Some companies *say it amounts to not much* more than being on a priority list for subsidies from their national governments. More*over, several projects are turn*ing out in practice to be little more than pre-competitive research because of reluctance among the companies involved to disclose commercially sensitive information.

A more fundamental question is whether Europe is pinning too many hopes on industrial collaboration and placing insufficient emphasis on creating more vigorous competition as a way of strengthening its high-technology industries. Though Eureka pays lip service to the idea of more open markets, it contains no formal mechanism for achieving them.

Direct competition between Europe's high-technology companies in each other's markets has been severely *limited* until now. *In part,* this *has* been due to nationalistic procurement policies which have erected protective barriers around defence *and telecommunications,* two of the largest markets for electronics equipment.

However, many European *companies have* been equally timid about venturing into neighbouring markets for products such as computers and *semiconductors,* where few formal barriers exist. That has left the way open to their more aggressive American competitors to sweep the field.

This reticence appears to have much to do with deeply-ingrained management attitudes in European companies, which have preferred to stick with the comfortable security of familiar home markets rather than engage in foreign adventures involving a substantial degree of risk.

There are signs that this may be starting to go to change. Italy Olivetti, in particular, has been *expanding aggressively on* both sides of the Atlantic and is now the world's third largest personal computer manufacturer. *Siemens, too, has begun to* make a determined effort to enlarge its presence in Europe and the US.

It remains to be seen whether government-sponsored collaborative schemes will advance or retard these trends. *On* the positive side, there is a good deal of evidence that they have played a useful catalytic role, imparting an increased sense of urgency to Europe's efforts in high-technology and stimulating new patterns of behaviour among its industries.

But there is also a danger that they could degenerate into cosy inward-looking clubs, the main function of which was to attract public subsidies while shielding their members from the painful realities of risk and structural adjustment. So far, at least, collaboration in Europe has conspicuously worked only when nobody has had to make any sacrifices.

FINANCIAL TIMES
Monday June 30 1986

CREDITS AND EURONOTES

Turkey backs $125m debut with letter of credit

TURKEY is planning to enter the Eurocommercial paper market for the first time. It has mandated Bankers Trust International to arrange a $125m, one-year renewable loan facility to back up issues of paper which will be guaranteed by Fuji Bank, writes Peter Montagnon in London.

The deal, essentially a renegotiation of the bankers' acceptance facility arranged by the central bank earlier this year, is an indication both of the continuing improvement in Turkey's credit rating and of the way in which Eurocommercial paper techniques can now be adapted to accommodate lesser-rated borrowers.

It carries an annual facility fee of 50 basis points, and the margin on drawings under the accompanying standby credit will be set at 25 basis points over the London interbank offered rate (Libor).

Because Turkey is not a name that would stand up on its own in the commercial paper market, it has borrowed a technique prevalent in the US, where lesser-rated borrowers seek to have their paper backed up by a letter of credit from a commercial bank. Turkey already issues paper in the US, where it has two programmes totalling up to $350m.

Its Europaper will actually be guaranteed by Fuji Bank with a counter-indemnity from all the other banks in the facility syndicate. Bankers say this marks a softening of the resistance to Turkish deals shown in the past by Japanese banks because of reserve requirements imposed on lending to countries which have had to reschedule their debt.

Under the terms of the deal, Turkey can also raise money through direct drawings of short-term funds from banks in the syndicate. Overall, the facility will not only be cheaper than the bankers' acceptance deal that it replaces, which carried a commission of ⅜ per cent, it will also be more flexible.

EUROMARKET TURNOVER
Turnover ($m)

Primary Market	Straights	Conv	FRN	Other
US$	4,498.2	798.5	690.2	2,612.7
Prev	1,939.5	3.2	1,127.1	2,344.7
Other	1,287.4	8.6	161.1	130.8
Prev	1,872.0	0.0	186.7	199.2
Secondary Market				
US$	21,702.5	891.4	13,136.5	3,108.5
Prev	20,346.9	1,222.4	12,801.8	4,064.5
Other	10,925.7	760.9	1,960.3	3,264.5
Prev	10,982.3	234.6	2,013.2	3,108.9

	Cedel	Euroclear	Total
US$	12,898.8	38,662.2	86,291.8
Prev	13,115.4	32,652.5	85,687.7
Other	3,983.9	8,178.2	17,944.7
Prev	3,833.9	8,394.9	17,927.9

Week to June 28 1986 Source: AIBD

One of the striking aspects of the deal is the speed with which Turkey has moved to renegotiate the terms of a facility arranged as recently as early this year. Bankers say its ability to do this reflects the continuing demand from banks for short-term business in a market that generally remains starved of good opportunities.

Last week saw relatively little other new business, though Credit Suisse First Boston is keeping up the pace of its recent succession of mandates for French corporate names. The latest is a $100m, five-year revolving credit for the state-owned CDF-Chimie. It follows an earlier $250m deal for Sanofi, the pharmaceutical concern, as well as a $150m, seven-year deal for Michelin, the tyre maker, which carried a facility fee of 1/16 per cent and a margin on drawings of ⅛ per cent over Libor.

CDF-Chimie is paying an annual fee of ⅛ per cent for its operation which is divided into two equal tranches. The first, carrying a margin of ⅛ per cent, must be fully drawn before the second is used. This carries a higher margin of 3/16 per cent.

Also expected soon from France is a $300m to $400m deal for Crédit Foncier, the state-guaranteed housing finance agency, while the recent $300m deal for Thomson CSF has been increased to $400m. Chemical Bank's credit for Gulf Canada has been increased to $850m from $600m.

Elsewhere, Amersham International has appointed Lloyds Merchant Bank to act as dealer in a new £20m commercial paper programme. Swedish borrowers continue to tap the Eurocommercial paper market, with two programmes announced last week. L. M. Ericsson, the telecommunications equipment group, is raising up to $100m through a programme for which Enskilda Securities, Shearson Lehman, Svenska International and Swiss Bank Corporation International will act as dealers. Enskilda is also dealer for a $50m programme for Perstorp, the speciality pharmaceuticals manufacturer.

Associates Corporation of the US has arranged a $300m Eurocommercial paper programme for which CSFB, First Chicago, Morgan Stanley, Salomon Brothers and Swiss Bank Corporation International will act as dealers.

First Chicago is arranging a $30m credit for Banca Popolare di Novara of Italy. This is a five-year deal which bears a margin of 8½ basis points for the first year rising to 10 basis points thereafter.

Wood Gundy-Gordon merger cancelled

BY BERNARD SIMON IN TORONTO

A PLANNED merger between Wood Gundy and Gordon Capital Corporation to form Canada's biggest securities firm has been called off.

The two Toronto-based companies said in a brief statement that they had "been unable to reach a mutually satisfactory agreement." No reasons were given.

The termination of association appeared, however, to be welcomed by Wood Gundy employees. One official said: "We're celebrating."

The merger was to be completed this week. Walls had already been removed and furniture rearranged in Wood Gundy's Toronto offices in preparation for the arrival of Gordon Capital staff.

News of the merger between one of Canada's most venerable investment dealers and one of the most aggressive and unorthodox firms took the financial community by surprise earlier this month.

The combination, which would have created a company with capital of C$250m ($180m), was viewed as an attempt to reinvigorate Wood Gundy and to give Gordon a wider international base at a time when competitive pressures in Canadian financial markets are rapidly mounting.

Wood Gundy's chairman, Mr Ted Medland, said when the merger was announced that, left to itself, the firm "would wither and die."

Some senior Wood Gundy employees were concerned that the merger would embroil their firm in the controversies which have swirled around many Gordon deals. According to local reports, some Gundy clients threatened not to deal with the new firm.

Gordon pioneered the "bought deal" in Canada in which an underwriter buys most or all of a security's issue. But the firm was penalised by the Ontario Securities Commission earlier this year for share-dealing irregularities in a takeover in which it advised one of the parties.

INTERNATIONAL BONDS

Managers respond cautiously to hopes of interest rate cuts

"NICE and easy does it" seems to be the watchword in the new issues business at the moment, with economic data suggesting bullishness but the imbalance between supply and demand in the Eurobond market counselling caution, writes Clare Pearson in London.

Continuing deflationary signals sent the benchmark 30-year US Treasury bond up to the feverish price of over 99 on the bid side last week. Hopes of interest-rate cuts next month could not fail to inspire the Eurobond market, and underwriters marked prices slightly higher.

Yet new issue managers responded only cautiously to the improving tone. In sharp contrast to general practice earlier this year, highly aggressive pricing seemed on the wane.

Merrill Lynch said that, when it launched a $150m 10-year 8½ per cent fixed-rate deal for Liberty Mutual, the triple A rated US insurance company, it saw fit to obtain the agreement of co-managers on pricing first. This resulted in a hefty initial 85 basis point yield margin over comparable US Treasury bonds.

As a result, the bond traded comfortably within 2 per cent fees for the rest of the week. It was bid on Friday at a discount to issue price of 1¾ per cent.

Similarly, a $125m five-year bond for Province of Saskatchewan, launched by Credit Suisse First Boston, attracted dealers with a coupon of 7⅞ per cent.

Some bankers say that a round of interest-rate cuts in July opens up the prospect of a small-scale rally in the Eurobond market. The scramble to achieve prominence in first-half 1986 lead-management league tables is now over, so the major issuing houses have no immediate incentive to jeopardise a market recovery by opening up a flood of paper. Meanwhile, modest demand from institutional investors seems to be returning.

Dealers say that Eurobonds in some non-dollar currencies are now looking oversold. Seasoned sterling Eurobonds have hardly responded to the New York rally so far and now yield around 9.5 per cent. Japanese investors are increasingly looking favourably on sterling Eurobonds as a high-yielding diversification out of dollar securities.

Their interest has chiefly centred on sizable issues for sovereign borrowers. Demand for high-quality bank names is also reported, and this led Kleinwort Benson to launch a new five-year deal for Crédit Lyonnais. Morgan Guaranty tested Japanese demand for UK building society floating-rate paper with a deal for Alliance and Leicester.

Another sector that looks neglected, in some dealers' view, is the D-Mark market. A trickle of new paper – in volume around DM 3bn – has reached this market over the month, as against an expected DM 16.9bn. Meanwhile, investor indifference has pushed yield levels to around 6.50 per cent.

Although the market traditionally tracks an upturn in New York, a weight of unsold paper and the West German authorities' resistance to interest-rate cuts have prevented a "follow through" trend from emerging. Nevertheless, dealers see retail demand for good-quality names. A recent offering for the European Investment Bank, for instance, is trading around issue price.

The Swiss franc market's progress is also impeded by the tight monetary policy of the authorities. Short-term rates are stubbornly high, at about 5 per cent on three-month Eurodeposits. In this context, traders are unable to move much recent paper.

With the interest-rate outlook so uncertain, the limited amount of end investor interest is concentrated on shorter-term paper. Recent Swiss National Bank deregulation moves have opened a window for borrowers to take advantage of this with short-dated public bonds.

Bank Gutzwiller, Kurz, Bungener, rather than one of the "Big Three" Swiss banks, inaugurated this market with a five-year deal for CB Pak. Swiss bankers say the Big Three have been unable to lead a debut deal since they still disagree about commissions. The commissions that Bank Gutzwiller charged its Canadian borrower are confidential although rumour has it that they were 2¼ per cent, with the standard SFr 125,000 for out-of-pocket expenses.

At the 2¼ per cent level they are about ¼ per cent below a theoretical charge based on scaling back charges for traditional public bonds, all of which were for eight years or more. One of the Big Three banks, however, said that it was surprised Bank Gutzwiller had not pared fees down to 2 per cent. A five-year private placement would have cost CB Pak 1½ per cent.

The volume of new equity-related deals for Japanese borrowers in the Swiss franc market has declined markedly recently while a crop of such bonds has appeared in the dollar market.

Japanese borrowers, wishing to swap proceeds back into yen, are apparently finding it less costly to issue in dollars first rather than to take a circuitous route out of D-Marks or Swiss francs.

Jordan plans to borrow $200m in Euromarkets

BY RAMI KHOURI IN AMMAN

JORDAN expects to tap the Euromarkets for a medium-term balance-of-payments loan later this year, for the third consecutive year, senior government banking sources said. The Government will require about $200m to make up for an anticipated shortfall in Arab aid grants this year.

Arab oil-producing states gave Jordan $560m in budget support last year though the Government still had to raise a $215m, eight-year Eurocredit.

Banking sources here expect the real rate of borrowing for Jordan to rise slightly from last year's split rate of ⅝ per cent and ¾ per cent over Libor for the two four-year segments of the loan.

Government sources said that Jordan aimed to borrow only the same amount that it had repaid foreign creditors in interest and principal payments, so as not to increase its total foreign-debt burden.

Jordan's total foreign debt stood at $3bn in March this year, with another $1.3bn in domestic government debt. The debt service ratio, however, is still a reasonable 9 per cent, reflecting steady inflows of workers' remittances, rising domestic exports, and a gradual decrease in imports.

● The Central Bank of Jordan has required all the country's licensed money-changers to submit detailed financial reports by the middle of July, after the collapse of four companies in the past two months.

US MONEY AND CREDIT

Stage set for Fed to ease policy stance

SHORT AND long-term interest rates edged lower again in the US last week, continuing a four-week rally in the credit markets spurred by a weak domestic economy and growing expectations of an early Federal Reserve Board discount rate cut. The market mood was one of optimism, reflecting hopes of further interest rate declines.

Long-term Treasury bonds posted a full 2 points gain on the week, helped by renewed evidence of Japanese buying. Overall government bond prices advanced by between ¾ and 2¼ points sending yields back down close to their mid-April lows.

The benchmark Treasury long bond closed the week at 99⅞, a full 5¼ points above its recent lows. At that price the long bond is yielding 7.28 per cent.

The Treasury auctions of four and seven-year notes brought investors average yields of 7.26 per cent and 7.33 per cent respectively.

In the foreign exchange markets the dollar continued to weaken against most other major currencies—particularly on Friday in the wake of the May US trade deficit data.

But the trade statistics provided another piece in the Fed watchers' jigsaw puzzle — a piece that most agreed should push the Fed further along the easing path.

"With imports exceeding exports by more than $14bn in both April and May, it is clear that no real progress has been made so far in reducing our trade deficit," says Dr Henry Kaufman, of Salomon Brothers. "In the light of this and the continued sluggishness of the US economy, and in the absence of progress on international policy co-ordination, few Congressmen will have the patience to sit through another explanation of the 'J-curve' theory.

"The Federal Open Market Committee (FOMC) may feel constrained to head off damaging protectionist legislation by initiating another round of accommodation aimed at stimulating domestic economic growth and bringing down the value of the dollar."

Certainly the political pressure is building for such a move, and most Wall Street economists have already jumped aboard the bandwagon.

Key dates in the Fed watchers' diary are now the July 6 Japanese elections and the July 6-8 policy-making Federal Open Market Committee meeting.

Last week Mr Allen Sinai, of Shearson Lehman, declared that "the odds are now 60-40 on another Federal Reserve relaxation and co-ordinated interest rate reductions at around that time."

Protectionist sentiment in Congress and the US at large is becoming an increasingly important factor on Wall Street —and the growing number of private sector economists who expect little positive change in the domestic US economy in the 1986 second half reinforce such sentiments.

At the same time Congress appears to be making some headway with its efforts to reduce the Federal budget deficit — and put in place a new simplified tax code.

Nevertheless Dr Kaufman, for one, believes it is still highly uncertain how large the deficit will be next year and believes that the Gramm-Rudman resolution calling for a $142bn budget deficit is "optimistic in the extreme." Even so he accepts that the Federal budget deficit for fiscal 1987 could be as much as $40bn less than this year's estimated $215bn to $220bn.

That means fiscal policy will be shifting from its recently strongly expansionary path at the same time that domestic US economic and other considerations in themselves argue for a Fed easing.

Significantly a number of senior economists, including Dr Kaufman, apparently no longer consider interest rate cuts abroad, specifically in Japan and West Germany, a prerequisite for a US discount rate cut.

Even though dollar weakness may act as a Fed constraint, the stage seems set for the Fed to ease its policy stance, with or without matching international moves.

For the bulls that's all grist to the mill. "With the economy weak, inflation restrained and the prospect of a further Fed easing over the month ahead —and again in the fall — it should be clear that bond prices have considerable potential for additional price appreciation," says Mr Philip Braverman of Irving Securities.

Certainly the market optimists appear to be back in the driving seat for the present. Last week most short-term rates fell by between 5 and 15 basis points. US short-term rates, like their long-term counterparts, are now pushing back towards 12-month lows.

In the corporate markets the clear message has not been lost. Corporate bond prices advanced by between 1 and 1½ points last week while most new issue rates fell by 13 to 25 basis points.

The volume of new issues ballooned to $4.3bn but there was little sign of market indigestion with most new issues trading higher in secondary trading. Corporate bond prices were marked higher by 2 points or more.

Paul Taylor

US MONEY MARKET RATES (%)

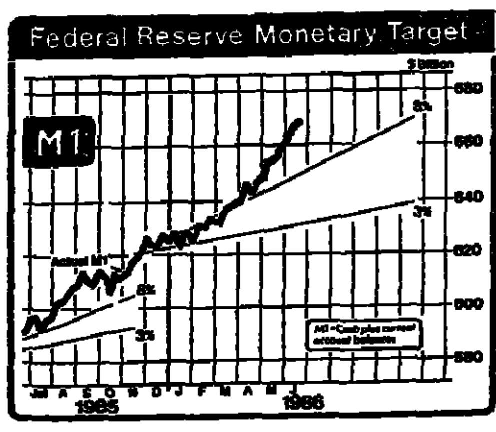
	Last Friday	1 week ago	4 wks ago	—12-month— High	Low
Fed Funds (weekly average)	6.87	6.87	6.91	9.91	6.79
Three-month Treasury bills	6.00	6.10	6.30	7.40	5.78
Six-month Treasury bills	5.99	6.17	6.40	7.49	5.79
Three-month prime CDs	6.63	6.70	6.82	8.10	6.42
30-day Commercial Paper	6.70	6.75	6.70	8.05	6.38
90-day Commercial Paper	6.60	6.60	6.65	8.00	6.25

US BOND PRICES AND YIELDS (%)

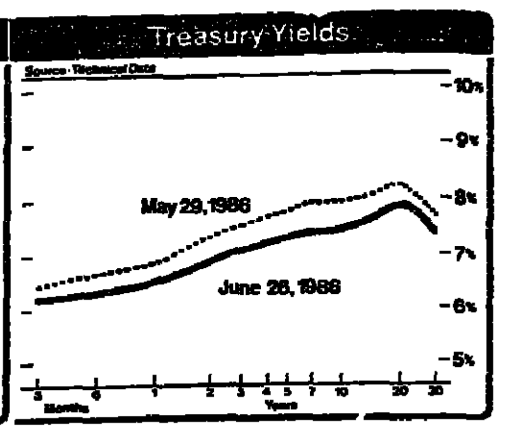
	Last Friday	Change on week	Yield	1 week ago	4 wks ago
Seven-year Treasury	99½	(new)	7.35	(new)	(new)
20-year Treasury	115⅛	+ 2⅛	7.85	8.06	8.41
30-year Treasury	99⅞	+ 2	7.28	7.45	7.77
New 10-year "A" Financial	N/A	+ 1½	8.50	8.70	9.13
New "AA" Long utility	N/A	+ 2½	9.25	9.50	9.40
New "AA" Long industrial	N/A	+ 1¼	9.00	9.13	9.20

Source: Salomon Bros (estimates).
Money Supply: In the week ended June 16 M1 rose by $1.6bn to $668.5bn.

Federal Reserve Monetary Target



Treasury Yields



UK GILTS

Concern grows over pace of funding

AFTER A firm start, the UK gilts market edged back by the close of the week. Progress was good enough to exhaust the Government Broker's four £150m tranches, issued at the end of the previous week, and to pave the way for three new taplets to be announced on Friday.

The Treasury created another £150m each of 10 per cent Treasury 1992, 8¾ per cent Treasury Loan 1997, and 9½ per cent Conversion 2004. The range of stocks was similar to the previous week—even including one issue free of tax to residents abroad—as was the message from the authorities of a steady approach to funding, but the taplets still depressed the market late on Friday.

Some analysts have begun to show concern over the Government's funding programme. Net gilt sales so far in the financial year are little more than £1½bn, and analysts calculate that they will need to amount to £550m to £600m a month for the rest of 1986-87 if the public sector borrowing requirement is to be fully funded. With British Gas on the horizon, this could start to cause problems.

From the Bank's point of view, however, the gross profile of gilt-edged funding appears to be on course, and the apparent under-funding in the early months of the financial year simply reflects the recent bunching of stock maturities.

The index-linked sector suffered last week, with some stocks falling by up to 1½ points on Friday. Taxable funds, which are in many cases sitting on substantial gains from the rally since the Budget, are expected to start selling index-linked on Wednesday, when capital gains tax ceases to be levied on bonds held for less than a year. Other investors appear to have tried to anticipate them.

Those with tax losses in the conventional sector to establish before July 2 took advantage of the opportunity to switch into the tap stocks on Tuesday and Wednesday last week. Some with index-linked losses, for example on the three £100m tranches exhausted in late May, may be tempted to wait until the last minute in case the sector falls further.

The tax change on July 2 could initiate a bout of selling, but the sell signal is not a very urgent one. Broker James Capel argues that a more likely reaction is for net funds to switch into longer dated stocks on policy grounds.

Wednesday is likely to accentuate any downward pressure already in the market, and sentiment may not have been helped by the cautionary tale in last week's Bank of England Quarterly Bulletin.

The message that unit labour costs are rising too fast is not a new one for the Bank, though it was spelt out with renewed precision. So long as British unit labour costs continue to grow even faster than those of more inflation-prone competitors, the Bank argued, then pressure would have to be maintained on employers to grant lower wage settlements.

To the extent that this pressure comes from the exchange rate, it indicated, the UK's relative interest rates would have to stay high to keep sterling strong.

None of this indicated any change in the approach to the "awkward choices" that the Bank says confront policy makers, but it was a further sign of caution from an institution that was already cautious about the build-up of liquidity in the economy.

Lest we grow blasé about the effects, should this liquidity find its way into the wrong channels, the Bank distinguished the possible consequences. Industrial and commercial companies, it warned, might use the funds they have built up to finance high pay settlements; financial institutions might switch their money abroad, thus damaging the exchange rate; and personal sector liquidity could seep into extra consumption.

The markets, meanwhile, continue to look overseas for a spur to the next, long-delayed base rate cut.

George Graham

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Price	Chg. on week	Yield
AHFC O/S Fin 11¾ 94	100	103½	−1½	11.02
AIDC 11 89	75	107½	+1½	7.79
Alcan Australia 8½ 89	25	98¾	−0⅝	8.89
Amer Savings 12 89	125	105⅛	+0⅞	9.56
Amer Savings 12⅝ 89	100	106⅝	+0⅝	9.61
Asian Dev Bk 11⅝ 93	100	0		
Australia 11⅝ 90	100	113	+0⅝	7.58
Australia 11½ 95	300	118½	+1¼	8.60
Australia 11⅝ 98	100	119½	+0⅝	8.88
Austria 15½ 88	75	112⅝	+0⅝	7.51
Avon Fin 10⅝ 92	100	104½	+1	9.38
Bk Nova Scotia 13⅛ 87	100	105⅞	+0⅞	7.61
Bank of Tokyo 12⅝ 92	100	0		
Bank of Tokyo 13⅝ 91	100	122¾	+1½	8.06
Bank of Tokyo 13⅞ 89	100	116	+0⅞	8.08
BMW O/S Ents 10⅝ 91	50	107⅜	+0⅝	8.59
BP Capital 11½ 92	150	108¾	0	8.97
[illegible]				
Ontario 12½ 94	250	0		
Orient Fin 11 92	50	0		
Pacific Gas & El 12 00	75	111⅝	−2½	10.33
Penney J C 11⅞ 90	100	104	−1⅝	10.85
Penney J C 12⅝ 91	100	111	−2	9.82
Phillips Petrol 14 89	200	101⅝	−0⅝	13.17
Postipankki 11½ 90	75	107⅝	+1⅛	9.00
Post-Och Kred 13½ 87	50	105⅝	−1	7.28
Privatbanken 12½ 95	100	0		
Prudential Ins 12⅝ 87	150	106½	+0⅝	7.18
Pru Rlty Secs 0 99	365	35⅞	+1¾	8.83
Pru Rlty Secs 11⅞ 92	399	107⅝	+1½	10.11
Pru Rlty Secs 12⅝ 96	545	116½	+2¾	9.34
Quebec Prov 12⅝ 94	150	113⅝	+0⅝	9.62

	Issued	Price	Chg. on week	Yield
Queensland Gvt 11⅝ 89	100	109⅛	+0⅝	8.10
RBC 11⅝ 90	100	107⅞	+1⅛	8.50
Rural Bk Aust 12 91	50	108⅞	−0⅞	9.09
Sanwar Bank 11⅞ 92	150	113½	+1⅝	8.89
Sanwar Intl 11½ 92	100	114⅛	+1⅛	8.39
Saskatchewan 10⅝ 92	100	112	+1⅞	8.04
Saskatchewan 10⅝ 90	125	109⅝	+1⅛	7.76
Saskatchewan 11⅞ 89	100	112	+1⅛	7.81
Saskatchewan 15 92	150	130⅛	+1½	8.51
Saskatchewan 16 89	125	119	+0½	7.87
Scot Intl Fin 10⅝ 90	50	0		
Sears O/S Fin 0 98	500	35⅝	+1	8.94
Sears Roebuck 10½ 91	150	106⅛	+0⅝	8.96
Sears Roebuck 11⅝ 91	150	113⅝	+1⅝	8.16
Sec Pacific 12 92	100	116	+1⅝	8.42
Shearson/Amex 12⅝ 94	100	116	+1⅝	9.38
Shell (Canada) 14⅝ 92	125	114⅝	+1⅛	11.06
Signal Comps 11⅝ 92	125	107	−1⅞	9.86
Standard Oil 10⅝ 89	150	103	+0⅝	9.13
[illegible]				
Toyo Trust Asia ⅛ 99	100	100⅛	0	7⅛
UBAF ⅛ 90	65		0	9⅝
Union Bk Finland ⅛ 34	100		0	7⅛
Union Bank-Norw ⅛ 99	50		0	8⅞
United Kingdom 92	2.5bn	100⅛	−0⅝	7⅛
Wells Fargo ⅛ 94	150		0	7⅝
Wells Fargo ⅛ 96	90		0	7⅛
Yorkshire Int ⅛ 94 £	75	100	−0⅛	11⅝

CONVERTIBLE BONDS	Issued	Price	Chg. on week	Prem.
Ajinomoto 3 99	120	280	+0⅝	0.51
Best Denki 6⅞ 97	15	290	+8⅝	1.74
Canon 7 97	50	254	+2⅛	−1.26
Daiwa Secs 5½ 98	60	516	−20½	−3.64

	Issued	Price	Chg. on week	Prem.
Elders 11⅝ 94	180	139	+1⅝	−2.66
Elektrowatt 5 98	61	139	−0⅝	−6.34
Fuji Bank 2⅝ 00	100	138	+3⅝	5.25
Fujitsu 3 99	180	119	+2	7.90
Intec Inc 3 99	50	181	+1⅝	−1.80
Kyowa Hakko 6⅝ 97	40	371	−17	−3.43
LASMO 9⅝ 99	44	87½	−0⅝	123.18
Moet-Hennessy 7 99	50	153	−1⅝	−88.84
Murata Mfg 3⅛ 00	100	149	−3	18.00
Nippon Oil 3⅝ 99	50	164	−1⅝	1.55
Ono Pharm 3⅝ 98	60	195	+6⅝	−2.72
Soc Gen Surv 4½ 94	50	191½	−0⅝	−5.12
Sumitomo Corp 2⅞ 99	70	240	+35⅝	15.40
Texaco Capital 11⅞ 94	1bn	103⅛	−1⅝	57.01
Texaco Capital 11⅝ 94	500	104⅛	−1⅝	57.83
Tamura Jnlendo 5⅝ 96	30	154	+0⅝	−2.35
Yamaichi Sec 3⅝ 95	20	319	+1½	−1.67

YEN STRAIGHTS	Issued	Price	Chg. on week	Yield
Asian Dev Bk 7⅝ 94	15	107⅝	−0⅝	6.06
[illegible]				

BOND WARRANTS	Expiry date	Price	Chg. on week	Ex. yield
Aegon Ins 11⅝ 91	15/2/88	0		
Coca-Cola 11⅝ 91	28/11/88	0		
Dai-Ichi K 8½ 96 B	1/1/96	11½	0	6.33
Du Pont 13⅝ 89	25/8/86	120	+6⅝	8.67
Eksportfinas 13⅝ 89	15/9/87	0		
Gen Elec 12⅝ 91	7/8/87	0		
Ind Bk Jpn 12⅞ 91	6/10/89	0		
ITT Finance Cpro	15/11/89	0		
McDnlds 11⅝ 94	5/1/88	0		
Oester Lnbk 13½ 89	9/8/87	0		
Texaco Cap 12⅞ 92	1/9/87	0		
Trnto Dom 12½ 91	5/4/88	0		

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for yen bonds, where it is in billions.

FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate (‡ three-month; § above mean rate) for US dollars. C.cpn=current coupon.

CONVERTIBLE BONDS: US dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.

WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price.

Closing prices on June 27.

This announcement appears as a matter of record only.

June, 1986

U.S. $350,000,000

Statoil

Den norske stats oljeselskap a.s

Multi-Option Financing Facility

Arranged by

Salomon Brothers International Limited

Lead Managers

Amsterdam-Rotterdam Bank N.V.
Bank of Tokyo International Limited Capital Markets Group
Chase Manhattan Limited
Christiania Bank og Kreditkasse
Citicorp Investment Bank Limited
Den norske Creditbank
Deutsche Bank Aktiengesellschaft London Branch
National Westminster Bank Group
Orion Royal Bank Limited
Swiss Bank Corporation International Limited
Union Bank of Norway

Managers

Banque Indosuez
Banque Nationale de Paris Norge A/S
Banque Paribas (London)
Barclays Bank PLC
Canadian Imperial Bank Group
Chemical Bank
Copenhagen Handelsbank A/S
The Dai-Ichi Kangyo Bank, Limited
The Fuji Bank, Limited
The Industrial Bank of Japan, Limited
Kansallis Banking Group
The Mitsubishi Bank, Limited
The Mitsubishi Trust and Banking Corporation
Mitsui Finance International Limited Mitsui Bank Capital Markets Group
The Mitsui Trust and Banking Co., Ltd.
The Saitama Bank, Ltd.
Sanwa International Limited
The Sumitomo Bank, Limited
Svenska Handelsbanken Group
Westdeutsche Landesbank Girozentrale
Westpac Banking Corporation

Participating Banks

Bank Mees & Hope NV
Crédit Lyonnais
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INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Ameritech allowed to manufacture overseas

By Paul Taylor in New York

AMERITECH, one of the seven US regional Bell Telephone holding companies, which is based in Chicago, has won a court ruling allowing it to manufacture telephone equipment overseas. The move effectively lifts a ban on such activities on the part of all the regional holding companies, and marks the latest in a series of diversification moves by them.

Meanwhile the US Justice Department has approved the planned long distance telephone service and data communications joint venture between GTE and United Telecommunications. Under the deal, first announced in January this year, GTE's Sprint long distance service will be merged with United Telecommunications' US Telecom service.

GTE is currently negotiating a separate US joint venture agreement covering the telephone equipment business with Siemens, the West German electronics and electrical group.

Ameritech's green light to begin manufacturing overseas appears to enhance the prospects for the seven regional holding companies' attempts to win equipment and consulting contracts in overseas markets. Ameritech has already moved aggressively to market its telecommunications expertise overseas, but has been hampered in bidding for contracts by the restriction on local manufacturing.

The court judgment represents further significant change to the rules under which the regional telephone companies have operated since they were spun off from American Telephone & Telegraph at the start of 1984.

Since then, the regional telephone companies have steadily diversified their businesses away from simply providing local telephone service and into such areas as mobile communications, publishing and property.

The seven US regional telephone companies are still prohibited from manufacturing and marketing their own equipment in the US—a ban imposed because of concerns that they have a captive market which might impede competition.

US microchips hit by fall in orders

BY LOUISE KEHOE IN SAN FRANCISCO

A SHARP decline in orders has the US semiconductor industry worried that its recovery may have stalled. After seven months of slow but steady improvement, "the phones stopped ringing" last month says one of the country's largest semiconductor distributors.

Leading manufacturers agree that they, too, have experienced a significant decline in new orders for chips. Combined with the normal seasonal slow-down, the new market softness will produce another quarter of losses for manufacturers, industry analysts predict.

"The recession will not be over until major computer manufacturers start placing orders," says Mr Donald Bell, president of Keiruluff Electronics, a large US electronics distributor, but industry executives believe that it is unlikely to happen until the fourth quarter.

"The US semiconductor industry will not be able to sustain any significant growth rates until the office and computer industry recovers from its doldrums," says Mr Jack Beedle, President of In-Stat, an industry market research firm.

"The facts remain that the office and computer industry in the US — the end user market that consumes the largest amount of semiconductors in the US — is still trending down."

US computer manufacturers' sales will be down this year, In-Stat projects, the first downturn in the office and computer industry since the mid-1970s, when sales dipped from $7.2bn in 1974 to $5.7bn in 1975.

This year's decline will bring US computer manufacturers' sales down from $17bn in 1985 to just over $14bn, In-Stat estimates, while semiconductor shipments to the computer industry will be down by 12.4 per cent.

"It appears that the rapid increase in semi-conductor orders during the first part of the year was primarily for inventory replenishment at the distributor and small manufacturer level, as well as some orders placed in anticipation of price increases," says Mr Beedle.

The industry is still suffering the after effects of a sales boom in 1983-84 which left many customers holding big stocks of unused chips. Large computer manufacturers, such as IBM, have still to re-enter the market by placing long-term orders.

Supply and demand of semiconductors are unstable, according to Mr Steve Zelencik, senior vice president of Advanced Micro Devices, a prominent US chip maker. A customer might order parts one week and find that they are available in a month, then order the same parts a week later only to find that they are not available for three months, he explains.

The instability is, however, a signal that supply and demand are beginning to get back in balance, Mr Zelencik believes. He expects to see customers placing long-term, high-volume orders in the fourth quarter.

Industry leaders are pinning their hopes on the fourth quarter as the beginning of a "true" recovery in the semiconductor market. Although 1986 will certainly be better than 1985, when sales fell by a disastrous 30 per cent, latest projections of this year's performance for the US industry peg sales growth at a meager 3.5 per cent to 5 per cent.

Dallas bank resubmits bid for BancTexas

BY MARY FRINGS IN DALLAS

BANCTEXAS, the state's 10th largest bank, which has run into financial pressure as a result of its extensive loan portfolio to troubled energy companies, appears to have become the object of a battle for control.

Mr James L. Huffines, chairman of the family-owned Dallas Bancshares Incorporated, said over the weekend that he has resubmitted an offer for the BancTexas group, despite the announcement of a tentative agreement between BancTexas and the Ford bank group. Mr Huffines has not disclosed the terms of his competing offer.

Dallas Bancshares is the holding company of Bank of Dallas, the city's second largest independent bank. Since its formation in 1984 the company has purchased three other small banks and is seeking additional acquisitions.

BancTexas has had a number of proposals, including one from the Hallwood Group, a little-known New York merchant banking firm which is also holding talks with First Oklahoma Bancorporation.

The restructuring plan put forward by Mr Gerald Ford, who controls 25 banks in Texas and New Mexico with total capital of $2.2bn, is entirely conditional on Federal Deposit Insurance Corporation assistance of a kind normally extended only to failed banks.

BancTexas is not yet in that situation, and analysts believe the FDIC will wish to examine less costly alternatives before the August 15 deadline.

The plan involves the infusion of $30m of capital provided that the Ford Bank group can raise $25.5m in new funds, of which up to $10m may come from a rights issue to present BancTexas shareholders.

A number of legal actions are in progress, including a damages suit brought by a group of shareholders against Mr Edward C. Nash, who resigned as chairman and chief executive in August last year, and other directors of the bank, over the board's rejection of a $8 a share takeover bid by Texas Commerce Bancshares in late 1983. BancTexas shares are currently quoted at $1.

The Ford offer includes only BancTexas Dallas, which would be merged with Ford's United National Bank, and six other banks in North Texas, although Mr Ford has said he would consider acquiring one or more of the four Houston banks if that were necessary to satisfy the FDIC.

Loral launches $860m offer for Sanders

BY WILLIAM HALL IN NEW YORK

LORAL, the fast-growing US defence electronics company, has launched a $860m bid for Sanders Associates, a larger but less profitable rival.

Loral is offering $44 a share—half in cash and half in paper — for Sanders, a New Hampshire-based maker of computer graphics devices and countermeasures systems designed to confuse enemy electronics. Much of Sanders' business is with the US Navy, While Loral's main customer is the Air Force.

Sanders described the bid as inadequate and its shares jumped by $15.75 to $50.50 on Friday, indicating that Wall Street expected a higher offer to emerge.

Loral, which is based in New York, makes radar, field radios and other electronic equipment. It earned $53m on sales of $664m in its last financial year.

Sanders Associates grew rapidly in the 1970s and early 1980s but its earnings peaked two years ago at $49m. Last year it earned $37.1m on sales of $886m and analysts expect it to report lower earnings in its current year, which ends next month.

● THE HONGKONG and Shanghai Banking Corporation has taken over Global Union Bank, a small New York bank owned by the Hong Kong-based Tung shipping family.

Hongkong and Shanghai, which has been expanding its banking interests in New York's China town, announced on Friday that it would acquire Global Union's assets and assume Global Union's $43.3m in deposit liabilities. Global Union has a branch in the lower Manhattan financial district and another in Chinatown. The two branches will expand its New York city network to 10 branches. Hongkong Bank also owns 51 per cent of the New York-based Marine Midland Bank.

Mr C. C. Tung, chairman of Global Union Bancorporation, said that he "heartily welcomed" the agreement with Hongkong Bank and believed it "will provide continuity of service to our depositors and will be beneficial to the Chinese community in New York."

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book Runner	Offer yield %
U.S. DOLLARS							
American General §‡	250	Issue withdrawn	–	–	–	–	–
Meiji ¶	20	1991	5	(3)	100	Daiwa Europe	•
Noritake ¶‡	50	1991	5	2⅞	100	Yamaichi	2.875
Banque Paribas (a)(b)†‡	200	Perp.	–	⅛	100.10	Banque Paribas	–
Bank of Montreal †(c)‡	250	1998	12	5bp	100	Morgan Guaranty	–
Liberty Mutual Cap. Corp. ‡	150	1996	10	8½	101	Merrill Lynch	8.349
Nagasakiya ¶	60	1991	5	(2⅞)	100	Nomura Intl.	•
Nippon Chemi-Con ¶	50	1991	5	(2⅞)	100	Nikko Secs.	•
J. P. Morgan (d)‡	100	1993	7	8	100	Nikko Secs.	–
Council of Europe ‡	100	1996	10	8	100⅝	Chase Manhattan	7.944
Vereins- & Westbank (e)†‡	100	1991	5	2½bp	100	CSFB	–
Alaska Housing Fin. Corp. (f)†‡	125	2001	15	10bp	100.10	Kidder Peabody	–
Prov. of Saskatchewan ‡	125	1991	5	7½	100	CSFB	7.500
Denmark ‡	250	1998	12	0	39.402	Pru. Bache	8.070
Belgium †‡	400	1996	10	(h)	100.20	Shearson Lehman Bros.	–
Asahi Glass ¶	100	1991	5	(2¾)	100	Yamaichi	•
Svenska Handelsbanken ‡	100	1991	5	8	101	Svenska Intl.	7.751
Hisamitsu Pharm. ¶	35	1991	5	(3)	100	Nikko Secs.	•
Dainippon Pharm. ¶	60	1991	5	(2¾)	100	Yamaichi	•
Toyo Wharf & Warehouse ¶	20	1991	5	(3)	100	Nikko Secs.	•
Eurofima ‡	100	1991	5	7¾	101⅜	Merrill Lynch	7.411
Chujitsuya ¶	30	1991	5	(2⅞)	100	Nomura Intl.	•
Nord LB ‡	100	1993	7	8	101	Morgan Stanley	7.809
SWISS FRANCS							
NYG	12	1996	–	(6⅝)	100	Banque Gutzwiller	•
Tauernkraftwerke A.G. ‡	130	1998	–	5¼	100	Crédit Suisse	5.250
SHV Holdings ‡	150	1998	–	5⅜	100	UBS	5.375
Yamato Intl. ¶	30	1991	–	(1⅛)	100	J. Henry Schroder	•
Ryosan Co. §	80	1991	–	(1¼)	100	SBC	•
CS Pak Inc. Montreal	85	1991	–	(5⅝)	(100)	Banque Gutzwiller	•
Chujitsuya ‡	50	1994	–	5⅜	100¼	Wirtschafts- und Privbk.	5.336
World Bank **‡	200	1993	–	5¼	99¾	Crédit Suisse	5.294
STERLING							
PHH Group ‡	50	1993	7	9⅝	100	S.G. Warburg	9.625
Alliance & Leicester (i)†‡	300	1994	8	8bp	100.10	Morgan Guaranty	–
Crédit Lyonnais ‡	50	1991	5	9⅛	100⅛	Kleinwort Benson	9.093
D-MARK							
Centurra Energy ‡	100	1992	6	6¾	99½	Commerzbank	6.854
Mediobanca ¶‡	150	1991	5	2	100	BHF	2.000
FRENCH FRANCS							
Fiat Fin. & Trade ‡	400	1996	10	8	100⅛	Crédit Lyonnais	7.987
LUXEMBOURG FRANCS							
Banque Continentale **‡	300	1991	5	7⅝	100	Banque Paribas (Lux)	6.625
CANADIAN DOLLARS							
Ford Credit Canada ‡	75	1991	5	9½	100⅝	UBS	9.338
Montreal Trust Co. ‡	75	1991	5	9¾	100¾	CIBC Ltd	9.554
T. Eaton Acceptance ‡	65	1991	5	10	100¾	Banque Paribas Cap. Mkt.	9.803
Hydro-Quebec (g)	200	1996	10	•	•	Yamaichi Secs.	•
AUSTRALIAN DOLLARS							
CIBC ‡	50	1991	5	13	101	CIBC Ltd	13.650
West LB Finance ‡	50	1991	5	12¾	100½	West LB	12.609
YEN							
Council of Europe ‡	15bn	1996	10	6	101½	Daiwa Europe	5.798
Nissan Motors ‡	15bn	1996	10	6¼	101¼	Daiwa	6.080
Canada ‡	80bn	1993	7	5⅝	100¾	Nomura Intl.	5.581
LIRE							
AT&T	100bn	1993	7	10¼	99¼	Instituto Banc. San Paulo	10.406
ECUs							
Nissan Motors ‡	100	1996	10	7½	100	BNP	7.500
Euromobiliare Intl.	20	1993	7	(4-4¼)	100	Morgan Stanley	•

* Not yet priced. ‡ Final terms. ** Private placement. § Convertible. † Floating rate note. ¶ With equity warrants. (a) ⅛ over 3m Libor. (b) +200m on tap. (c) 6m Libor +5bp. (d) Deferred coupon, 8½% last 2 years. (e) 6m Libor +2½bp. (f) 6m Libor +10bp. (g) Shogun issue. (h) 6m Libid flat. (i) 3m Libor +8bp. Note: Yields are calculated on AIBD basis.

INTERNATIONAL APPOINTMENTS

Unexpected shake-up in management of Seagram

BY BERNARD SIMON IN TORONTO

SEAGRAM COMPANY, the world's largest drinks group, has appointed Mr David Sacks as president and chief operating officer following the unexpected resignation of Mr Philip Beekman.

Mr Edgar Bronfman, the group's chairman, ascribed Mr Beekman's departure to changes in the liquor industry which "have dictated a shift in the company's marketing strategies and practices away from those of standard consumer goods."

Prior to joining Seagram in 1977, Beekman, aged 54, was president of the international division of Colgate-Palmolive, the personal hygiene products manufacturer. Mr Bronfman said Mr Beekman had convinced him that "solutions to our current challenges lie outside his field and he would be more professionally comfortable in another area where his recognised skills are more applicable."

The company said in New York that personal differences had not played a role in Mr Beekman's resignation. None the less, it is an open secret that tensions within Seagram rose after the publication of a cover story in Fortune Magazine earlier this year about the growing influence in the company of Mr Bronfman's son Edgar Jr, aged 30.

Mr Bronfman said in an interview that Edgar Jr would succeed him as chief executive, drawing a response from the company's deputy chairman and his brother Mr Charles Bronfman that the succession should be determined by the full board of directors and not by the elder Bronfman generation.

Seagram, with head office in Montreal but its main business offices in New York, has had to contend with an increasingly hostile environment towards its products, reflected in a recent dispute with American television networks which refused to accept its advertisements. The company has had limited success in an expensive commitment recently to the US table wine market.

Operating income from wine and spirits slipped by 18 per cent in the three months to April, despite an 8 per cent increase in sales. But total net income more than doubled to US$99.4m, thanks to improved earnings from the chemical group E. I. du Pont de Nemours, in which Seagram has a 23 per cent interest.

Mr Sacks, 62, has been executive vice president for finance and administration since joining Seagram in 1983. He was previously a partner of the US law firm, Simpson Thacher and Bartlett, and chief administrative officer of Lehman Brothers Kuhn Loeb.

Motorola sets up successions

BY PAUL TAYLOR IN NEW YORK

MOTOROLA, the US electronics and semiconductor group, has announced a two-phase management transition designed "to put in place the corporations next generation of senior management."

Under the first stage of the reorganisation, Mr William Wetz, aged 59, currently vice chairman and chief operating officer, will become chief executive while retaining the vice-chairman's title, at the start of July. He will succeed Mr Robert Galvin, 63, who is relinquishing the chief executive's job after 22 years but who is to remain as chairman.

Mr John Mitchell, 58, currently president and assistant chief operating officer, will remain president while becoming chief operating officer on the same date, before assuming the vice chairmanship in January, 1988, when the second round of senior management changes are to take effect.

At the start of 1988, Mr George Fisher, 45, who will assume the new position of senior executive vice president and deputy to the chief executive from July 1, will step up to become president and chief executive. Mr Fisher has been senior vice president and assistant general manger of Motorola's communications sector.

Mr Gary Tooker, 47, who is currently an executive vice president and general manager of the semiconductor products sector, will become senior executive vice president and chief corporate staff officer on July 1, succeeding Mr Robert Swift, 62, who is retiring after 33 years with the group. In 1988, Mr Tooker will become senior executive vice president and chief operating officer.

"The prime objective of these changes is to put key officials in place for the next generation of corporate leadership," Mr Galvin, the son of Motorola's founder, Mr Paul Galvin is expected to remain chairman of the $5.5bn-a-year Illinois-based group past 1988.

The changes were warmly welcomed on Wall Street as an indication of continued management stability at the group and as evidence that the group was acknowledging the continued importance of the semiconductor group by preparing Mr Fisher to become chief executive.

Varian president resigns

BY LOUISE KEHOE IN SAN FRANCISCO

MR JEROME MEYER, the president of Varian Associates, who joined the company just 19 months ago, has resigned. In a brief statement, the California electronics company described Mr Meyer's decision to resign as "an amicable one made by mutual agreement."

Mr Meyer's resignation came a few days after Varian announced that it expects to lose between $4m and $16m in the first quarter. That compares with a $2.4m profit in the same period a year ago.

The company says that Mr Meyer's departure is unrelated to the loss, but offers no reason for his sudden resignation.

Mr Meyer's resignation from the company and board was of immediate effect. Mr Thomas Sege, chairman and chief executive, will take the added title of president and assume chief operating responsibilities.

New chief at Norfolk Southern

By William Hall in New York

MR ARNOLD B. McKinnon, aged 58, is to take over as chief executive of Norfolk Southern, the big US railroad which is facing fierce opposition in its attempt to buy Conrail from the US government.

Mr McKinnon, currently executive vice president marketing, will become chairman and chief executive when Mr Robert B. Claytor retires at the end of the year. Mr Claytor has headed the group since the consolidation of the Norfolk and Western Railway and the Southern Railway in 1982.

The appointment surprised many Wall Street analysts since it had been assumed that Mr Harold Hall, the group's president and chief operating officer would become chief executive on Mr Claytor's retirement.

Mr McKinnon joined the Southern Railway system in 1951 as a lawyer and worked his way through the legal department. After the merger of the two railroads he took charge of marketing, which has become an increasingly important position following the deregulation of large parts of the US transportation industry.

Swiss Bank Corporation restructuring

By John Wicks in Zurich

MR WALTER G. FREHNER is at the start of 1987 to take over the newly-created post of management chairman of Swiss Bank Corporation, of Basle.

The new chief executive, who is 53, is currently a general manager of the bank and a member of its executive committee. His appointment as management chairman forms part of a major restructuring at the top of SBC, Switzerland's second biggest banking group.

This foresees the abolition of the executive committee, which is currently made up of the bank's seven general managers. This is to be replaced by another management system. Apart from the general managers, this will be manned by six deputy general managers—a new post representing the up-grading of the current rank of central manager.

Mr Frehner's position will be that of a permanent management chairman.

UK COMPANY NEWS

Terry Povey on the investments of Mr. Ron Brierley's IEG

The collector's instinct at work

IN LESS than two years Mr Ron Brierley's Industrial Equity Group has purchased over £500m worth of UK stocks and has built up a solid platform from which to play predator, long-term investor or arbitrageur in perhaps 40 companies. Almost every day the Stock Exchange information screen reveals a new or increased IEG stake in a London-quoted stock.

Mr Brierley's most important UK investments to date are in Tozer Kemsley & Millbourne, Ultramar and Hampton Gold Mining Areas. But: "We're not buying these stocks because of any wish to conquer the world—not like some Australian companies," claimed Mr Brierley in an interview with the Financial Times recently.

The scale of IEG's UK involvement is still minor by comparison with that in the Pacific Basin, where Mr Brierley is one of the top half dozen corporate chiefs. The master company, Brierley Investments Ltd (in which Mr Brierley holds a 5 per cent stake) is New Zealand's largest, capitalised at NZ$3.7bn (£1.4bn). In New Zealand, the 48-year-old Mr Brierley has almost folk-hero status, with 2,500 turning out for BIL's last annual general meeting.

Capitalised

Across the Tasman is Industrial Equity Ltd (54 per cent owned by BIL), Australia's 10th largest company, capitalised at A$2.4bn (£1.1bn). Industrial Equity Pacific in Hong Kong, 18 per cent owned by BIL and 51 per cent by IEL is worth HK$9bn (£750m). The three companies constitute the core of IEG.

The majority of IEG's interests are in service or consumer-related areas. Breweries, wine, pastoral, tourism, media, insurance and property interests appear prominently on the list.

While there are some light industrial activities, there is little that would require major capital investments or a very long-term effort to boost earnings.

Drawing Mr Brierley to the UK is the need to spread group interests outside of the Antipodean homebase. There are obvious limitations to further expansion in New Zealand and in Australia there is a nagging doubt over the long-term regulatory environment.

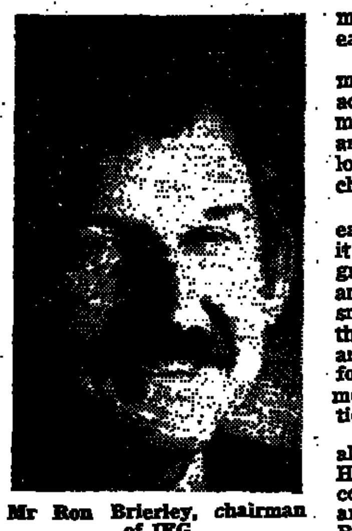
Targets in the UK are underpriced companies where a change of management could produce a rapid boost to trading fortunes.

Mr Brierley's best known move in the UK to date was the takeover of TKM last year — within months of which Tozer made a successful bid for Kenning Motors. The expanded TKM is the UK's largest car sales group, and through it IEG has a corporate launch pad capitalised at over £400m — of which it owns just over half.

How did IEG come to take over TKM? "It was brought to us but my first reaction was that the company was in such a mess that it couldn't last long," explains Mr Brierely. "Later we took a second look and were able to buy the shares at bargain basement prices (25p each) and, after a management upheaval, came up with a bold refinancing scheme." Over a 20-month period he has garnered a £165m capital gain on a £41m investment.

There are now plans to list TKM in New Zealand and 1,000 or so investors from Down Under have followed Mr Brierley and bought shares in TKM. The TKM move is not, however, part of any master plan aimed at the UK motor sector, claims Mr Brierley.

IEG has long had a token presence in the UK, but earlier investments were not successes and "taught me the hazards of operating at a distance," says Mr Brierley.



Mr Ron Brierley, chairman of IEG

The Brierley investment philosophy — he is perhaps best compared to an investment fund manager working on his shareholders' account rather than a corporate chief — is that "if the group buys one share in a company, it is prepared to buy all the shares at the same price." Many stakes are sleepers, held for several years before any further action is taken, not all produce dramatic profits and only one in ten ever leads to a full bid," comments Mr Brierley.

An example of the sleeper strategy in action is the 97 per cent stake in Ultramar, the independent oil company. At over £50m the Ultramar holding is IEL's most costly UK investment after TKM.

It patience has been a characteristic of his attitude to smaller investments — such as Ultramar —this is not the case with anything in the 20 to 30 per cent region. Once within striking distance of compulsory bid levels, he looks to the existing management to produce high earnings growth.

So woe betide any management that consistently underachieves. At TKM, group chairman, chief executive and finance director, along with many lower level managers, have been changed since last summer.

In the UK, IEG is still at an early stage of development so it will be important for the group to cash in on capital gains and keep the profit running smoothly. Inevitably therefore, there will be more arbitraging and profit-taking on the portfolio than is the case with the more mature IEL and BIL operations.

Mr Brierley's purchase of an almost 10 per cent stake in Hampton Gold Mining Areas could well be an example of his arbitraging activities. Mr Alan Bond, the Australian entrepreneur, has made a £41m bid for the company and the result could not turn on what Mr Brierley does with his stake. Australian brokers claim that there is no love lost between the two men and the affable Mr Bond may well have to up the anti or offer something interesting in exchange before IEG will agree to sell.

Mr Brierley's UK purchases are already exciting the London market — he holds stakes in IC Gas (2.1 per cent), Horizon Travel (10 per cent), Perry's Motors (10 per cent), Redfearn National Glass (16.3 per cent), Jonas Woodhead (18.1 per cent) and reputedly Overseas Transport and Trading (4 per cent). Several companies to which he has been attracted have seen sharp price rises, and some have felt obliged to prepare defensive arrangements.

Mr Brierley is a collector by nature. Stamps and takeover memorabilia vie with chess, cricket and investigating special situations/takeover targets as relaxation activities. As he builds up stakes in UK companies, it is not difficult to see the same collector's instinct at work.

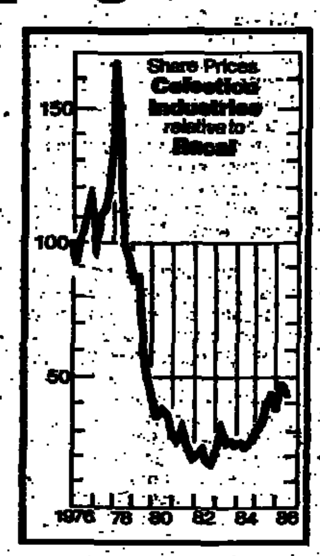
Weather holds back Celestion progress

THREE of the four clothing companies at Celestion Industries had improved results over the previous year, but the division's result overall was adversely affected by a poor performance in swimwear, largely attributable to last year's bad summer.

Pre-tax profits increased from £852,000 to £1.07m in the year to April 4, 1986. Profit on clothing was down overall from £843,000 to £794,000, but the sound reproduction division achieved a *swing back into* profit with figures of £180,000 compared with a loss of £96,000.

The pre-tax figure included dividends from listed investments totalling £94,000 against £105,000. Tax rose from £344,000 to £380,000. There were extraordinary profits of £364,000 (£131,000), being surplus on the sale of investments net of tax credits. Reorganisation and factory closure costs took £102,000, last time leaving attributable profits of £1.05m. (£537,000).

Group turnover advanced from £35.39m to £41.66m, with clothing's share up from £28.49m to £33.1m. The dividend is unchanged at 1p net, and stated earnings per 20p share advanced from 2.2p to 2.9p.



SHARE STAKES

Atlantic Resources—Mr G. L. McGuinness, a director disposed of 1.2m ordinary shares at 9.03125p on June 13 and now holds 550,000 shares (0.448 per cent).

United Spring and Steel Group—Director Mr A. C. Firth, has sold 10,000 shares.

Harris Queensway—Mr P. Davis, a director, sold 24,444 new ordinary.

Geers Gross—Director Mr P. M. Enoch acquired an additional 11,000 shares and now holds 50,000 shares.

UDO Holdings—The following directors disposed of shares on June 24: R. F. Bruniges 80,000 and now holds 934,642; S. G. Coxwell 75,000 and now holds 548,529; E. A. Reekie 75,000 and now holds 2,012,487; D. J. Reekie 50,000 and now holds 2,322,577; and B. F. Smith 65,000 and now holds 760,729.

W. A. Holdings—Director Mr W. A. Airey sold 37,000 ordinary shares on June 24 and a further 25,000 ordinary shares on June 25.

Spirax-Sarco Engineering—Director Mr A. Brown sold 35,000 ordinary shares on June 19.

BOARD MEETINGS

TODAY

Interims: Arbuthnot Dollar Income Trust, Blue Arrow, Epicure, J. Hewitt (Fenton), Oakwood, Television South, Widney.

Finals: Compsoft, Gresham House, *Leopold Joseph, Ulster, Mercury International*, PCT, R.E.A., Welpac, Wiggins Group, Witwatersrand Nigel.

FUTURE DATES

Interims—	
Egerton Trust	July 10
Gen. Consolidated Inv. Trust	July 16
Granada	July 8
Lonrho	July 3
Microgen	July 2
Micro Systems	July 9
Finals—	
Assocd. British Engineering	July 18
Carclo Engineering	July 7
Dowty	July 23
Estates and Agency	July 1
Fashion and General Invest.	July 1
Imry Property	July 4
Moorgate Invest. Trust	July 16

F.T. Share Information

The following securities have been added to the Share Information Services:

Combined Lease Finance (Section: Banks, HP & Leasing)
Dalepak Foods (Food, Groceries)
Debfor Holdings (Drapery & Stores)
Eldridge Pope & Co (A Restricted Voting) (Beers, Wines & Spirits)
Euromoney Publications (Newspapers, Publishers)
German Securities Warrants (Investment Trusts)
Merlin Intl. Properties (Property)
Rea Brothers (Banks)
Usher (Frank) Holdings (Drapery & Stores)
Worcester Group (Buildings)

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus*) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year		Date	Announcement last year
Abbey Life	July 18	Interim due	Magnet and Southerns	July 10	Final 2.7
*ASDA-MFI	July 21	Final due	Mercantile House	July 31	Final 9
*Associated Newspapers	July 9	Interim 5.5	*Mercury Int	June 30	Final 16.0
BET	July 18	Final 11.25	Midland Bank	Aug 1	Interim 11
BTP	June 18	Final 2.3	NatWest Bank	July 30	Interim 10
*Barclays Bank	Aug 7	Interim 8.4	**Northern* Foods	July 1	Final 3
Britoil	*July 12*	*Interim 3.3*	Ocean Transport	July 31	Interim 2.15
*Daejan	July 3	Final 9.625	*Rank Organisation	July 17	Interim 5.5
*Daily Mail and Gen Trust	July 10	Interim 15.5	*Rothschild *(J.)*	*July 1*	*Final 1.2*
*Davy	July 3	Final 2.585	*Scottish and Newcastle	July 1	Final 4.19
*Dowty	July 23	Final 2.8	Thorn EMI	July 5	Final 12.5
*Electronic Rentals	July 7	Final 2.065	Tomkins (F. H.)	July 29	Final 1.475
*Ferranti	July 1	Final 1.04	*Trusthouse Forte	July 2	Interim 1.27
*GEC	July 1	Final 2.65	*Union Discount	July 16	Interim 11.0
Gestetner	July 18	Interim 0.5			
Granada	July 11	Interim 2.53			
Great Universal *Stores*	*July 18*	*Final 11.75*			
*Hogg Robinson	July 8	Final 4.2			
Intnl. Leisure	July 9	Final due			
*Lister	June 30	Final 0.25			
Lloyds Bank	Aug 2	Interim 7.5			
*Lonrho	July 3	Sec int 4.0			

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

FINANCIAL TIMES STOCK INDICES

	June 27	June 26	June 25	June 24	June 23	June 20	1986 High	1986 Low	Since Compilation High	Since Compilation Low
Government Secs.	90.84	90.84	90.99	90.68	90.47	90.32	94.51	80.39	127.4	49.18
Fixed Interest	96.98	96.92	96.69	96.68	96.61	96.43	97.61	86.56	150.4	50.53
Ordinary	1354.4	1353.1	1344.8	1339.4	1338.2	1353.4	1485.9	1094.3	1485.9	49.4
Gold Mines	198.8	202.1	193.5	203.7	208.5	213.8	357.0	192.3	734.7	43.5
FT-Act All Share	806.78	808.50	804.96	801.84	801.50	806.60	832.59	664.42	832.59	61.92
FT-SE100	1639.1	1637.5	1629.4	1624.9	1622.8	1637.2	1717.6	1370.1	1717.6	986.9

UK COMPANY NEWS

Smurfit forecasts record year profits

Jefferson Smurfit has recovered from the poor second half to 1985-86 last year and is forecasting pre-tax profits ahead of last year's good start and record results for the year. Profits in the second half were halved but now the Dublin-based company has said interim profits will be about I£24m compared with I£20.32m last time.

A slow but improving movement in prices, which started in the second quarter was seen by this company, which is involved in printing and packaging and making corrugated cases, paper and board.

The improvement followed a significant downturn in pricing for the previous 15 months.

The medium-term outlook continued to look favourable, the company said, adding that analysts predict the price recovery will continue for the rest of the present year and well into 1987.

Publishers Paper, the US company in which an 80 per cent stake was acquired in February this year cost a total of $134m, which was less than expected. Since then the applicable net debt has been reduced by $40m, mainly as a result of excellent cash flow, altered trading terms and the disposal of excess assets.

The name has been changed to the Smurfit Newsprint Corporation. Its other major products are lumber and specialised cladwood products, both of which are benefiting from increased demand due to the high level of housing starts.

Exploration Louisiana in £17m US deal

The Exploration Company of Louisiana, the London-quoted oil and gas exploration and production company, has approved the acquisition of certain lands, mineral interests and oil and gas production interests in South-western Louisiana in a transaction valued at approximately £17m. The vendors are the John W. Mecom Company and certain of its affiliates.

The purchase price of up to £17.45m will be satisfied by the issue of 23.35m ordinary shares in XCL, worth approximately £10.58m at current market prices, two promissory notes aggregating up to $8.2m (£5.5m) and $2.04m (£1.37m) in cash. The cash will be raised by the simultaneous issue of $4.5m (£3.02m) in convertible loan notes at par.

Tootal buys Clover Leaf for £7.5m

By Charles Batchelor

Tootal, the threads and textiles group, hopes to complete negotiations shortly for the acquisition of Clover Leaf, a family-owned manufacturer of table mats and melamine kitchenware, for up to £7.5m in cash.

The purchase of Clover Leaf, which made £1m profit pre-tax on sales of £10m in its last financial year, would allow Tootal to add co-ordinated ranges of homeware products to its existing range of soft furnishings.

Tootal said yesterday talks had not been completed, and there still remained problems to overcome. If the deal goes ahead, it would pay £5.75m at once with a further £1.75m dependent on profits performance.

Bett profits unchanged

Virtually unchanged pre-tax profits were yesterday reported by Bett Brothers—its activities include building and ancilliary services, commercial vehicle distributorship—for the half-year to February 28 1986.

The figures were £412,000 compared with £421,000, and turnover was slightly lower at £7.1m against £7.53m. The interim dividend is unchanged at 1.2p net—last year's total was 3.1p from pre-tax profits of £824,000. Stated earnings per 20p share were up from 1.54p to 1.59p.

Tax was down from £190,000 to £156,000, and there was an extraordinary debit this time £15,500.

The directors said similar trading conditions to the previous year had been experienced in the first half. Turnover was down as a result of the continued high level of competition in the building sector.

Channel Tunnel

CHANNEL Tunnel Investment pre-tax profits fell from £3,230 to £2,661 for 1985. After tax of £800 (£969) earnings per share were 0.13p (0.15p). The directors said that the company is not involved in the Channel tunnel project nor was it invited

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Capitalisatn. £000's	Company	Price	Change on week	Gross div.(p)	Yield %	P/E Actual	P/E Fully taxed
4,415	Ass. Brit. Ind. Ord.	131	—	7.3	5.6	8.0	7.5
—	Ass. Brit. Ind. CULS	131xd	—	10.0	7.6	—	—
6,657	Airsprung Group	115	−5	7.6	6.6	7.2	6.4
775	Armitage and Rhodes	31	+1	4.3	13.9	3.8	4.6
57,222	Bardon Hill	178	—	4.6	2.6	20.2	18.5
4,302	Bray Technologies	78	+1	4.3	5.5	9.3	8.5
280	CCL Ordinary	80	—	2.9	3.6	5.7	8.9
1,075	CCL 11pc Conv Pref.	86xd	—	15.7	18.3	—	—
11,218	Carborundum Ord.	187	+12	9.1	4.9	9.0	9.3
630	Carborundum 7.5pc Pf.	90xd	+2	10.7	11.9	—	—
4,383	Deborah Services	56	—	7.0	12.5	5.8	7.7
3,178	Frederick Parker Group	22½	+1½	—	—	—	—
1,974	George Blair	107	−1	—	—	4.4	7.9
2,518	Ind. Precision Castings	62	—	3.0	4.8	16.4	13.7
12,905	Isis Group	162	+2	15.0	9.3	12.5	18.6
6,145	Jackson Group	118xd	—	6.1	5.2	8.0	7.2
48,888	James Burrough	349xd	+1	17.0	4.9	9.8	8.9
3,487	James Burrough 9pcPf	99	−1	12.9	13.0	—	—
5,940	John Howard and Co.	57xd	—	5.0	8.8	—	—
44,814	Minihouse Holding NV	1370	—	8.7	0.6	45.3	53.7
8,740	Record Ridgeway Ord.	380	—	—	—	6.8	11.7
2,403	Record Ridgway 10pcPf	89xd	—	14.1	15.8	—	—
765	Robert Jenkins	75	+2	—	—	9.7	21.4
1,800	Scruttons "A"	30	—	—	—	—	7.7
2,075	Torday and Carlisle	85xd	+5	5.7	6.7	5.2	5.2
1,450	Trevian Holdings	320	—	7.9	2.5	6.7	8.8
8,792	Unilock Holdings	56s	—	2.1	3.8	15.2	14.9
22,425	Walter Alexander	173	+1	8.6	5.0	9.8	11.9
4,434	W. S. Yeates	190	—	17.4	9.2	18.0	21.1

s—Suspended

BUSINESSMAN'S DIARY

UK TRADE FAIRS AND EXHIBITIONS

June 30-July 3
Royal Show (0203 555100) Kenilworth

July 1-5
International Production Engineering and Productivity Exhibition and Conference — PEP (01-891 5051) Olympia

July 8-10
International Satellite and Cable TV Exhibition and Conference—CABLE (01-868 4466)
Met. Exhn. Hall, Brighton

Education, Training and Personnel Development Exhibition and Conference (01-637 2400)
NEC Birmingham

July 14-17
International Water Exhibition and Conference — WORLD WATER (0923 778311) Olympia

July 15-17
Systems for the City Exhibition (01-868 4466) Barbican Centre

July 16-18
PC User Show and Conference (01-608 1161) Olympia

July 20-24
Gift Trade Fair (0282 867153)
Harrogate Exhibition Centre

July 24-27
Acorn Computer User Christmas Show (01-349 4667)
Barbican Centre

July 29-August 3
British Music Fair — MAKING MUSIC (01-385 1200) Olympia

July 31-August 3
National Fitness and Health Exhibition — PHYSICAL (0273 206722) Kensington Exhn. Centre

August 5-10
Women's World Exhibition (0272 215206) Bristol

August 7-10
Collectors Fair for Antiques and Memorabilia (021-780 4171)
NEC Birmingham

August 17-19
International Craft and Hobby Fair (04252 72711)
Wembley Conference Centre

August 31-September 2
International Jewellery Exhibition (0935 20721)
Barbican Centre

September 1-5
Castings and Forgings Exhibition; Furnaces Exhibition; International Foundry Exhibition; Metallurgical Plant Exhibition; Metalworking International Exhibition (0737 68611). International Metalcutting Machine Tools Exhibition (01-402 6671). Subcontracting Exhibition, including Surface Treatment and Finishing (01-486 1951)
NEC, Birmingham

OVERSEAS TRADE FAIRS

July 7-11
International Powder Metallurgy Exhibition and Conference (01-493 3893) Dusseldorf

July 21-24
International Laboratory Equipment Exhibition — LABEX (021-705 6707 Sydney

August 17-23
City Planning Exhibition (021-705 6707) Xiamen

August 20-23
Office Technology and Computer Exhibition (01-486 1951)
Kuala Lumpur

August 22-31
International Trade Fair (Consumer goods — INT SKANEMASSAN (01-486 1951) Malmo

August 26-28
Finnish Fashion Fair (01-486 1951) Helsinki

August 31-September 6
International Autumn Fair (01-240 7013) Leipzig

September 10-14
International Autumn Fair (01-977 4551) Vienna

September 17-24
International Engineering Fair (021-455 9600) Brno

September 23-28
International Road, Rail, Sea and Air Transportation Exhibition (01-968 4567) Guangzhou

BUSINESS AND MANAGEMENT CONFERENCES

July 1-3
British Institute of Energy Economics: The future of UK North Sea oil and gas (01-398 5778) Whitehall

July 2
The Industrial Society: We're making it happen — industry works for people (01-839 4300)
The Royal Albert Hall

July 2-3
International Business Communications: Tax aspects of international treasury management (01-236 4080) Cafe Royal, W1

July 7-9
City Financial Conferences: The 1986 Insurance Information Exchange (01-242 5275)
Connaught Rooms, WC2

The Institute of Petroleum: Introduction to petroleum economics (01-636 1004)
61 New Cavendish Street, W1

July 8-9
Crown Eagle: Defence contract management and negotiation (01-242 4111) The Tower Hotel, E1

July 9-11
HS Conferences: Three days of theft, fraud and negligence (01-935 2382) Cafe Royal, W1

July 10
The Royal Institute of International Affairs: China's seventh Five Year Plan: an assessment (01-930 2233)
Chatham House, SW1

July 11
University of Cambridge: Water privatisation (0223 335860)
Selwyn College

July 18
Legal Studies and Services: Mergers and acquisitions — strategic tax and accounting issues (01-236 4080)
Royal Lancaster Hotel, W2

July 31
London Chamber of Commerce: Seminar on the cause and effects of the "big bang" (01-248 4444)
Savoy Hotel, WC2

August 26-28
FT Conference: World aerospace to the end of the century (01-621 1355) Hotel Inter-Continental, W1

September 4-5
Euromoney Conferences: Eurobonds '86 New opportunities in creative markets (01-236 3288)
Grosvenor House, W1

September 8-10
Institute for Personnel Management: Personnel statistics (01-946 9100) Embassy Hotel, W2

Frost and Sullivan: Introduction to OSI and its support for message handling systems (01-935 4433) Regent Crest Hotel

September 11
SFS: Stress (01-736 0134)
The Royal Garden Hotel, W8

September 24-25
Euromoney two-day seminar: (1) Options—a risky business? (2) Hedging can be fun (01-236 3288)
Grosvenor House Hotel, W1

September 25-26
FT Conference: Pacific Basin oil and gas — prices, investment and the business outlook (01-621 1355)
Hotel Regal Meridiën, Kowloon

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.

PARLIAMENTARY DIARY

Commons and Lords business this week

TODAY

Commons: Debate on motion to approve the statement on the defence estimates 1986.

Lords: Third Readings of the Road Traffic Regulation (Parking) Bill, Consumer Safety Bill, Protection of Military Remains Bill, and the Children and Young Persons Bill. Social Security Bill (committee). Motions on Northern Ireland orders.

Select Committees: Home Affairs Sub-committee on Race Relations and Immigration. Subject: Review and evaluation of race relations policies in a European perspective. Witness: Home Office (Room 6, 4.15 pm). Foreign Affairs. Subject: The situation in South Africa. Witness: Dr Denis Worrall, South African ambassador (Room 8, 4.30 pm). Treasury and Civil Service. Subject: Long-term trends in resources and public expenditure. Witnesses: Ex-ministers (Room 16, 4.45 pm).

TOMORROW

Commons: Continued debate on a motion to approve the statement on the defence estimates 1986. Timetable motion on the European Communities (Amendment) Bill.

Lords: Insolvency Bill (report). Parliamentary Constituencies Bill. Committee on Recommitment. Protection of Children (Tobacco) Bill. (third reading). Forestry Bill (third reading). Disabled Persons (Services, Consultation and Representation) Bill (third reading). Gas Bill (report). Motions on social security regulations.

WEDNESDAY

Commons: Motions on Social Security regulations, until 7.00 pm. Consideration of Lords amendments to the Housing (Scotland) Bill, Airports Bill and the Drug Trafficking Offences Bill.

Lords: Agriculture Bill (report). Northern Ireland (Emergency Provisions) Act 1978 (Continuation) (No. 2) Order 1986, motion for approval.

Select Committees: Channel Tunnel Bill. Subject: Petition of Kent District Council (Westminster Hall, Grand Committee Room, 10.30 am). Energy. Subject: Combined heat and power. Witnesses: The Tariffs Forum of the National Combined Heat and Power Liaison Group and Mr David Hunt, Energy Under-Secretary (Room 8, 10.30 am). Trade and Industry. Subject: Post Office Monitoring Inquiry. Witness: National Federation of Sub-Postmasters (Room 15, 10.45 am). Home Affairs. Subject: Rules for the redistribution of seats. Witness: Mr Merlyn Rees (Room 6, 4.15 pm). Transport. Subject: Financing of Rail Services. Witnesses: Central Transport Consultative Committee: Transport 2000 (Room 17, 4.15 pm).

Environment. Subject: Historic Buildings and Ancient Monuments. Witnesses: Association of County Councils; Association of District Councils (Room 20, 4.30 pm). Foreign Affairs. Subject: Overseas Development Administration bilateral country programmes. Witness: The Independent Group on British Aid (Room 15, 5.00 pm). Committees on Private Bills—Pontypridd Markets Fairs and Town Hall Bill (Room 13, 10.00 am). Unopposed bills. British Railways (No. 2): Alcoholics Anonymous (Dispositions); Clifton Suspension Bridge (Room 9, 4.00 pm).

THURSDAY

Commons: Debate on outstanding reports of the Public Accounts Committee to which the Government has replied. Remaining stages of the Outer Space Bill (Lords).

Lords: Insolvency Bill (third reading). Company Directors Disqualification Bill (third reading). Family Law Bill (third reading). Building Societies Bill (committee). Lord Chancellor's Salary Order, motion for approval. Crown Agents (Amendment) Bill (second reading).

Select Committee: Channel Tunnel Bill. Subject: Petition of Kent District Council (Grand Committee Room, Westminster Hall, 10.30 am).

FRIDAY

Commons: Private members' bills.

Lords: Motion to take note of the situation in South Africa.

WEEK'S FINANCIAL DIARY

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

COMPANY MEETINGS
Albany Inv Tst, Port of Liverpool Bldgs., Pier Head, Liverpool, 2.30
Anglo-African Finance, 43, Fetter Lane, EC, 10.30
BSG Intnl, National Motorcycle Museum Coventry Road, Bickenhill, Solihull, West Midlands, 11.00
Bristol Waterworks, Bridgwater Road, Bristol, 12.30
Glanfield Lawrence, Expedier House, Portsmouth Rd, Hindhead, Surrey, 10.00
North British Canadian Inv., 29, Charlotte Square, Edinburgh, 12.30
Parambe, 125, High Holborn, WC, 12.00

BOARDS MEETINGS—
Finals:
Compsoft
Gresham House
Joseph (Leopold)
Lister
Mercury Intnl
PCT
REA Hldgs
Welpac
Wiggins Group
Witswatersrand Nigel
Interims:
Arbuthnot Dollar Income Tst
Blue Arrow
Epicure
Howitt (J.) (Fenton)
Oakwood
Television South

Craigton Combined Secs 8¼pc1stDb 1986-91 4⅛pc
Croda World Traders 7pcPf 2.45p
Cummins Engine 3¼pcLn 1987-94 1⅝pc

DRG 7¼pcLn 1986-91 3⅝pc
Dalgety 8¼pcDb 1988-93 4⅛pc

Dead Sea Works 5pcDb 2002 2½pc

Delyn Packaging 2p
Denmark (Kingdom of) 13pcLn 2005 6½pc
Derby Tst 7½pcDb 1999-2003 3¾pc
Desoutter Bros 5.25pcPf 2.625p
Diploma 10 pcLn 1990-95 5¼pc

EIS 5pcPrf 1.75p. 4pc 1st MtgDeb 2pc 8pcLn 4pc
East Lancashire Paper 7½pcLn 3¾pc
Eastbourne Waterworks 7½pc 1990-92 3¾pc. 10½pcDeb 5¼pc. 12½pcDeb 6¼pc. 11.20pcDeb 2005-09 5.6pc
Eastern Produce 10½pcLn 1992-97 5¼pc
Ecclesiastical Insurance Office 10pc 2nd Prf 5p
Englebard Corporation 18cts
Edinburgh American Assets 8pcLn 1973-1998 4pc
Edinburgh Investment Trust 11½pcDeb 2014 5¾pc
Electric and General Investment 10.1pc Deb 1997-2002 5.05pc

LONDON RECENT ISSUES

EQUITIES

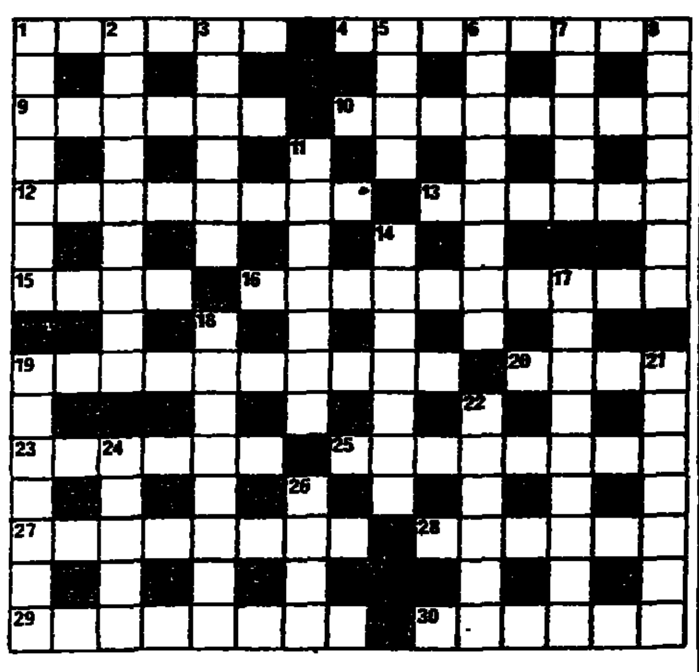
FIXED INTEREST STOCKS

"RIGHTS" OFFERS

Renunciation date usually last day for dealing free of stamp duty. *a* Annualised dividend. *b* Figures based on prospectus estimates. *g* Assumed dividend and yield. *h* Assumed dividend and yield after scrip issue. F Forecast dividend cover on earnings updated by lastest interim statement. H Dividend and Yield based on prospectus or other official estimates for 1987. L Estimated annualised dividend, cover and p/e based on latest annual earnings. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. *t* Indicated dividends; cover relates to previous dividend; p/e ratio based on latest annual earnings. *u* Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. ¶ Issued by tender. ‖ Offered holders of ordinary shares as a "rights." ‖‖ Introduction. ** Issued by way of capitalisation. § Placing price. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or takeover. ■ Allotment price. ✣ Unlisted securities market. †† Official London listing. ‡‡ Including warrants entitlement.

F.T. CROSSWORD PUZZLE No. 6,060

PROTEUS



ACROSS

1 Rich man first to take clothes off (6)
4 Give pen-picture of French writer (8)
9 Left a novice to find the entrance (6)
10 Tools that bridge the gap (8)
12 It indicates what novelist does (4-4)
13 School following lines laid down by European? (6)
15 Does the spade-work in providing accommodation (4)
16 Make just estimation of rise in value (10)
19 Cleaning materials that put men off apparently (10)
20 Responsibility it seems we must carry (4)
23 Sublime part of year (6)
25 Request certain to give delight (8)
27 Produce peculiar green tea perhaps (8)
28 Draughtsman getting the bullet? (6)
29 Staggered to find scavenger leading journalist (8)
30 Diverted by advertisement about training emus (6)

DOWN

1 Commissioned to get something done about place (7)
2 What over-enthusiastic slimmer may become—a warning to others? (4, 5)
3 Opens with sudden movements (6)
5 Occult power youth leader has to watch (4)
6 Agreement to draw together (8)
7 Felt penitence to some degree an irrelevant and futile return (5)
8 Distinctive nature of French petrol (7)
11 Flighty girl who gets flustered (7)
14 Talk childishly of soft toy (7)
17 Declares girl to be putting on a little weight (9)
18 Keep special area for game (8)
19 Dose of medicine showing doctor a thug? (7)
21 Anointed with same peculiar colour (7)
22 Grass that will ruin sheep no matter which way it is taken (6)
24 Information on extra-terrestrial animal (5)
26 Pen we hear is an eye-sore (4)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

AUTHORISED UNIT TRUSTS & INSURANCES

Wardley Unit Trust Managers Ltd (a)
Wardley House, 7 Devonshire Sq, EC2 01-929 1532

American Tst.	65 4	70.4	-0.2	1.6
Far East & Gn. Tst.	89.8	95.5	-0.7	1.0
Intl. Growth Tst.	67.7	72.1	...	0.8
Income Tst.	81.0	87.2	+0.6	3.6
Japan Growth Tst.	110.1	118.4	-0.8	0.2
Small Cos. Tst.	116.3	125.1	+0.1	1.9
Tchnlgy.Tst.	33.2	35.6	-0.4	0.2
Australian Trust	39.9	42.9	-0.2	1.8
UK Trust	127 0	135.2	-0.4	2.8
European Growth Tst	48.1	51.2	-0.2	1.2
Hong Kong Tst	20.4	21.7	.....	1.5

Waverley Asset Management Ltd (a) (c) (g)
13 Charlotte Sq, Edinburgh 031-225 1551

Australasian Gold	15.4	16.4		0.15
Pacific Basin	13.7	14.6		0.2
Canadian Balncd Grwth	59.2	63.3	-1.7	0.99
Ginnie Mae	99.6	103.7	+0.1	7.8

WestAvon Unit Trust Managers Ltd(a)(c)
9 Portland Square, Bristol BS2 8SS 0272 428431

British Smllr Co's (z)	56.9	58.9		1.90
British Growth (z)	66.7	68.6	+0.1	1.75
British Income (z)	65.4	67.2		4.75
British Extra Yield(z)	52.6	54.1	.	6.50

Whittingdale Unit Trust Managers
2 Honey Lane, London EC2V 8BT 01-606 9085/6

Short Dtd Gilt Fd	67.3	68.4	...	0.99
U.S. Govmt Bond F	50.503	0.505	...	—

Windsor Trust Mngrs Ltd
83 Kingsway, London, WC2B 6SD 01-405 8331

Convtbl & Equity Tst	49 4	52.6	+0.1	7.57
Growth Trust	51.7	55.1	+0.1	2.22
Income Trust	55.0	58.6	+0.1	4.99

Wright Seligman Fund Managers Ltd
11 Blomfield St, London EC2M 7AY 01-588 0592

Growth Fund	68.0	71.5	...	3.64

Weekly dealing day Tuesday

The Yorkshire General Trust
Woodsome Pk, Fenay Bdge, Huddersfield 0484 602250

Y G.T.	120 9	128.7	+0.7	3.44

INSURANCES

Cannon Assurance Ltd—Continued

Index	113 7	120.3		—
Far East	165.2	174.8	-0.1	—
Global	94 6	100.1	-0.4	—
European	95.6	101.2		—
Japan	99.4	105.2	..	—
2nd Series Pension Accumulation				
Equity	492.0	520.4	+2.5	—
High Income	324.2	343.1	+1.4	—
Property	277.1	293.2	....	—
Managed	338.0	357.7	+0.8	—
Deposit	257 7	272.7	-0.6	—
Gilt	158.3	173.3		—
American	395 7	418.7	+1.8	—
International Money	252.7	267 4	-0.7	—
Index	124.3	131.5		—
Far East	178.3	188.7	-0.1	—
Global	94.7	100.2	-0.4	—
European	95 9	101.5		—
Japan	100 5	106.3	-0.5	—
Other Funds				
Equity Units		66.79	+0.31	—
Property Units		21.07		—
Equity Bond/Exec	41.79	44.16	+0.31	—
Property Bond/Exec	28.40	30.05		—
Balanced Bond/Exec	33 43	35.38	+0.07	—
L&E SIF 1	109.5	115.5		—
L&E SIF 2	71.5	76.0	...	—

City of Edinburgh Life Assurance
46 Charlotte Sq, Edinburgh EH2 4HQ 031-225 1655

Ivory & Sime Bond	106 0	112.0	+0.7	—
Risk & Reward Bond	118.0	125.0	....	—
Murray Johnstone Fd	116.0	123.0	..	—
Money Market Fd	99.0	105.0	.	—
Ivory & Sime Pens Fd	94.0	100.0		—
Risk & Reward Pens Fd	100.0	106.0	-0.2	—
Murray J'stone Pens Fd	114.0	120.0		—
Money Market Pens Fd	99.0	105.0	.	—

City of Westminster Assurance
Sentry House, 500 Avebury Boulevard, Cent Milton Keynes MK9 2LA Tel: 0908 606101/660888

Current Series				
Property Fund	113.9	119.9	+2.2	—
Money Fund	218.8	230.4	+0.2	—
Managed Fund	402.8	424.0	+1.0	—
Equity Fund	253.3	266.7	+1.6	—
Fixed Interest Fund	149.4	157.3	-0.1	—
Far East Fund	182.0	191 6	+0.3	—
North American Fund	193.5	203.7	+1.0	—
Natural Resources Fund	132.4	139.4	+0.9	—
S.U.N. Flag Fund	118.1	124.4	..	—
Pension Managed Fund	376.7	396.6	+1.4	—
Pension Equity Fund	244 6	257.5	+1.5	—
PBR Fund	124.1	130.7	+3.3	—

For other prices please telephone 0908 606101/660888

Clerical Medical/Fidelity International
Narrow Plain, Bristol BS2 0JH 0272 290566

INSURANCE, OVERSEAS & MONEY FUNDS

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

Money Market Trust Funds

Money Market Bank Accounts

NOTES

TRADITIONAL OPTIONS

3-month call rates

A selection of Options traded is given on the London Stock Exchange Report Page.

LONDON SHARE SERVICE

BRITISH FUNDS

Interest Due	Stock	Price £	Last xd	Yield Int.	Yield Red.
"Shorts" (Lives up to Five Years)					
29 Apr 29 Oct	Exch. 14pc 1986	101¼	24.3	13.81	9.44
21 May 21 Nov	Exch. 2½pc 1986	98	14.4	2.55	7.51
22Jul 22Jan	Exch. 13¾pc 1987	102 xd	16.6	12.98	9.38
10 Aug 10 Feb	Treas 10½pcCv '87	100	6.1	10.20	9.33
24Aug 24Feb	Exch 2½pc 1987	96	20.1	2.58	7.45
6Oct 6Apr	Exch. 10½pc 1987	100	3.3	10.43	9.30
1 Nov 1 May	Funding 6½pc '85-87‡‡	98	25.3	6.63	8.99
12Dec 12Jun	Treas. 10pc 1987	100	5.5	9.94	9.28
14Jan 14Jly	Treas 3pc 1987	96	9.6	3.13	7.07
3May 3Nov	Treas. 12pc 1987	103	28.3	11.62	9.24
26 Jul 26 Jan	Treas 7¾pc 1985-88‡‡	98 xd	19.6	7.90	9.08
10Nov 10May	Exch 10½pc '88	102	3.4	11.26	9.06
14Dec 14Jun	Treas 9¾pc Cv '88	101	8.5	9.64	9.07
1Jan 1Jul	Transport 3pc '78-88	92 xd	27.5	3.24	7.08
25 Apr 25 Oct	Treas. 9½pc '88	100	19.3	9.44	9.17
22 Aug 22 Feb	Treas 11½pc 1989	105	16.1	10.93	9.20
18 Oct 18 Apr	Treas 9½pc Cnv. '89	101	12.3	9.39	8.99
15Nov 15May	Treas 3pc 1989	90	8.4	3.33	6.89
14Dec 14Jun	Treas 10½pc 1989	103	8.5	10.16	9.16
1Feb 1Aug	Exch 10pc 1989	102 xd	25.6	9.77	9.14
29 Mar 29 Sep	Exch 11pc 1989	105	20.2	10.47	9.13
15 Apr 15 Oct	Treas 5pc 1986-89	91	10.3	5.44	7.83
15 May 15 Nov	Exch 10½pcCv '89	106	8.4	9.62	7.97
15 Jul 15 Jan	Treas 13pc 1990‡‡	111 xd	9.6	11.65	9.08
12 Aug 12 Feb	Exch 11pc 1990‡‡	105	6.1	10.41	9.11
22 Sep 22 Mar	Exch. 12½pc 1990	110	13.2	11.31	9.07
8 Nov 8 May	Treas. 3pc 1990	88	1.4	3.40	6.49
15 Dec 15 Jun	Treas 8¼pc 1987-90‡‡	98	9.5	8.41	8.82
25 Apr 25 Oct	Treas. 10pcCv 1990	103	19.3	9.68	9.04
22 May 22 Nov	Exch 2½pc 1990	85	15.4	2.89	6.34
10Jul 10Jan	Treas 11¾pc 1991	109 xd	3.6	10.70	9.05
5Oct 5Apr	Funding 5¾pc '87-91‡‡	93	3.3	6.17	7.48
13 Nov 13 May	Treas. 3pc 1991●	85		3.50	6.46
Five to Fifteen Years					
25Apr 25Oct	Exch. 11pc 1991	108	19.3	10.16	9.00

AMERICANS—Cont.

Dividends Paid	Stock	Price £	Last xd	Div Gross	C'vr
Ap Jy Oc Ja	Chemical New York	33 xd	10.6	$2.60	—
Mar Jun S D	Chesebrough-Pond's $1	33	30.5	$2.00	—
Mar Jun S D	Chrysler $6¼	24	10.6	h66.6c	—
My Au N F	Citicorp $4	38 xd	24.3	$2.26	—
Fb My Ag Nv	CityFed Fin. Corp.	11	30.12	40c	—
F My Au N	Corgate-P. $1	27	22.4	$1.36	—
Mr.Jn.Se.De.	Colt Inds. $1	45 xd	10.6	$2.50	—
	Cons Freightwys $0 625	21	6.5	73.3c	—
—	Contl Illinois Corp $1	426p	—		
—	Cont Illinois Hldgs. $1	33p	3.84	—	—
—	♥Corporate Data Scnce.	55p	—	—	—
Jn Ap Jy Oc	Crown Zell. $5	27	5.12	$1.00	—
—	Culinet Sftwr $0.1	827p	—	—	—
—	Damson Oil 40c	53p	—	—	—
Mar Jun S D	Dana Corp. $1	21 xd	22.5	$1.28	—
—	Data General	21½	—	—	—
—	♥Derma-Lock Medicl	13p	—	—	—
Mr Jn Sp Dc	Dun & Bradstreet $1	78	17.2	$2.56	—
F My Au N	Exxon Corpn 50c	44	30.4	$1.60	—
For Exxon see Oil and Gas					
MrJnSepDec	FPL Group $0.01	20	27.5	$2.04	—
—	Fawmont Fin	20½	—	—	—
F May Au N	Fin. Corpn. Amer. 50c	548p	25.6	—	—
Jan Apr Jly O	First Chicago $5	21	3.6	$1.32	—
Mar Jun S D	Ford Motor $2	36	29.4	$2.20	—
Mar Jun S D	GATX 62½c	21	10.6	$1.20	—
April Oct	Gen. Elect. $1¼	53	3.6	$2.32	—
—	♥General Host Corp $1	15	—	22c	—
Mar Jun S D	Gillette $1	32	28.4	$2.72	—
Fb.My.Aug.Nv.	Gt Am First Svg. Bk $1	13	12.5	$26.7c	—
Fe My Au No	Gt. Western Fin. $1	31	30.4	$1.20	—
Ja No Au My	Hasbro Inc $0.50	39	15.4	15c	—
Mar Jun S D	Honeywell $1.50	49	25.2	$2.00	—
No Au Ap Ja	Hospital Corp Am $1	25	1.4	50c	—
Mr Jn Se Dc	Houston Inds Inc$	20	13.5	$2.80	—
Mar Jun S D	IBM Corpn $1.25	96	8.4	$4.40	—
Ap Jy Oc Ja	IC Industries	31 xd	10.6	$1.44	—

[illegible]

Over Fifteen Years

[illegible]

Undated

[illegible]

Index-Linked

[illegible]

INT. BANK AND O'SEAS GOVT STERLING ISSUES

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

Financial

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Cont.

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY & STORES—Cont.

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Continued

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS—Continued

[illegible]

INDUSTRIALS—Continued

LEISURE—Continued

MOTORS, AIRCRAFT TRADES

Motors and Cycles

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

PROPERTY—Continued

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

INVESTMENT TRUSTS—Cont.

Finance, Land, etc

FINANCE, LAND—Cont.

OIL AND GAS

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

MINES—Continued

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

Miscellaneous

♥Colby Res Corp.	55	—	—	—	—
Cons. Murch. 10c	165	13.1	Q100c	♦	13.5
♥Ennex Int. 1r10p	33	—	—	—	—
Greenwich Res	97	—	—	—	—
Hampton Areas 10p	252	23.12	♦1.0	—	0.9
♥Highwood Res.	237	—	—	—	—
Homestake Mining $1	£14¼	30.1	Q20c	—	0.9
♥McFinley Red Lake	200	—	—	—	—
♥Mosto Explorations	219	—	—	—	—
♥New Sabina Res C$1	34	—	—	—	—
Northgate C$1	219	9.77	—	—	—
RTZ	689	12.5	22.8	2.8	5.2
Do. 9½pcLn '95-2000	£133	12.5	Q9½%	15.5	f7.4
♥Tara Expln $1	875	—	—	—	—

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 29 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ♦ Figures or report awaited.
- ♥ Not officially UK listed; dealings permitted under Rule 535(4)(a).
- ✦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡† Dealt in under Rule 535(3).
- # Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ♦ Not comparable.
- ♦ Same interim: reduced final and/or reduced earnings indicated.
- ♦ Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ‖ No par value.

B.Fr. Belgian Francs. Fr. French Francs. ¢¢ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend; cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Figures based on prospectus or official estimates for 1984. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1985. P Figures based on prospectus or other official estimates for 1983. Q Gross. R Forecast annualised dividend cover and p/e based on prospectus or other official estimates. T Figures assumed. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency. [illegible]

Albany Inv 20p	118		Fin. 13% 97/02	[illegible]

"Recent Issues" and "Rights" Page 35 (International Edition Page 24)

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £875 per annum for each security.

CONSTRUCTION

The Grand Hotel is restored to glory

BY JOAN GRAY, CONSTRUCTION CORRESPONDENT

THE GRAND HOTEL in Brighton, devastated by the IRA bomb which exploded above the room where Mrs Margaret Thatcher, the Prime Minister, was staying on the night of October 12, 1984, will reopen for its first guests in August.

It will have been completely revamped, repaired and refurbished in a £10.5m contract carried out by the Llewellyn Group.

Of this, £3.5m was spent repairing the bomb damage and £7m on a complete refurbishment to restore the ornate Victorian hotel—built in 1862 — to its former glory as a showpiece on Brighton's seafront.

"It's strength lies in the grandness of the building, which is its way of competing with the more modern hotels in Brighton, and our job has been to restore this," said Mr David Llewellyn, the contractor's managing director and newly-inaugurated president of the Chartered Institute of Building.

His company, based farther along the south coast at Eastbourne, has been working for the hotel's management for 40 years.

Llewellyn won the contract to rebuild the Grand in competition with Longley, another locally-based builder, which started the urgent repair work on the night of the explosion.

The management contract was awarded after both contenders had been interviewed on their plans for the job by the hotel's owners, Greenall Whitley. Llewellyn quoted the lowest price.

The main structural work has been to rebuild the floors and walls which were shattered by the blast and by the 60 cu metre chimney stack which was dislodged in the explosion. It fell through seven floors, destroying the central section of the building and burying senior members of the Conservative Party, including Mr Norman Tebbit.

Once the debris and remains of the old timber floors were cleared away, the structure was rebuilt with a reinforced concrete frame and reinforced concrete floors to bring it up to modern standards.

The chimney which was destroyed in the blast has been replaced with a glass fibre replica moulded from its neighbour—which has also been replaced with a glass fibre copy, as have many of the decorative carvings and the huge stone shield in the centre of the roof.

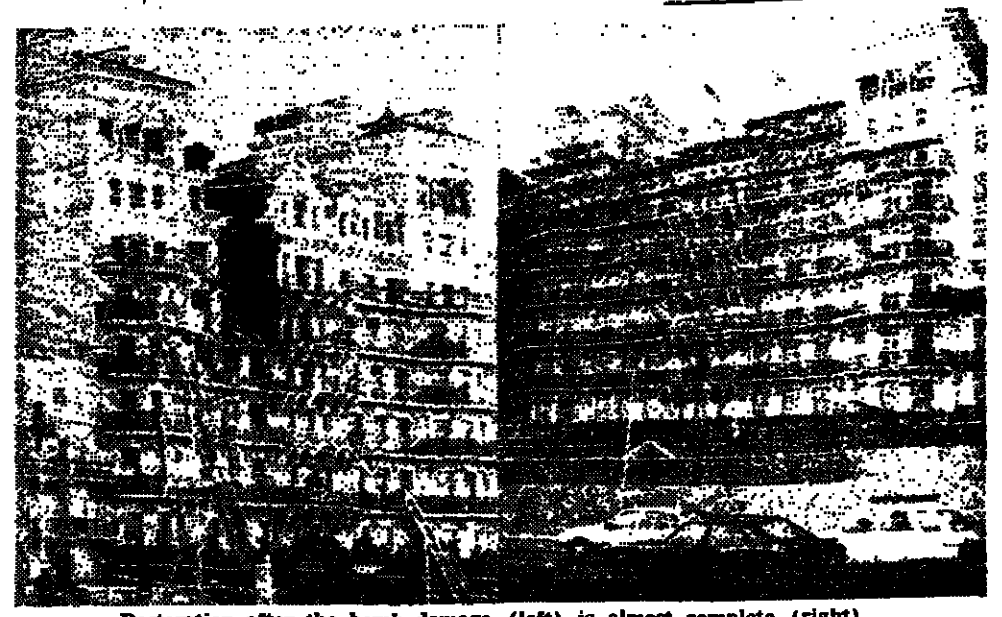
Mr Llewellyn said: "The decorative shield, carvings, and chimneys were essential to the appearance of the building, but we replaced them with replicas in glass fibre to cut the huge weight the new roof would have to carry."

The contract also involved replacing and repairing the delicate Victorian mouldings of shells and flowers which had been damaged in the blast or eaten away by dry rot.

The new mouldings were prepared and painted by sub-contractor Clark and Fenn, a specialist in fibre plaster which had, as Llewellyn's project manager Mr David Goward put it, "one man just moulding tiny flowers for a whole week."

The refurbishment has also involved redecorating and modernising all the bedrooms—including converting five rooms along the front of the hotel to a new Presidential suite, complete with accommodation for security guards for those who would once have brought their butlers and ladies maids.

It has also included installing a new swimming pool, jacuzzi and nightclub in the basement, and restoring all the public areas to their former state of swagged and pillared splendour, complete with new chandeliers.



Restoration after the bomb damage (left) is almost complete (right).

BASE LENDING RATES

	%		%
ABN Bank	10	First Nat. Fin. Corp.	11
Allied Dunbar & Co	10	First Nat. Sec. Ltd	11
Allied Irish Bank	10	● Robert Fleming & Co	10
American Express Bk	10	Robert Fraser & Ptrs	11
Amro Bank	10	Grindlays Bank	‡10
Henry Ansbacher	10	● Guinness Mahon	10
Associates Cap Corp	10	● Hambros Bank	10
Banco de Bilbao	10	Heritable & Gen. Trust	10
Bank Hapoalim	10	● Hill Samuel	§10
Bank Leumi (UK)	10	C. Hoare & Co	†10
Bank Credit & Comm	10	Hongkong & Shanghai	10
Bank of Cyprus	10	Knowsley & Co. Ltd	10½
Bank of Ireland	10	Lloyds Bank	10
Bank of India	10	Edward Manson & Co	11
Bank of Scotland	10	Mase Westpac Ltd	10
Banque Belge Ltd	10	Meghraj & Sons Ltd	10
Barclays Bank	10	Midland Bank	10
Beneficial Trust Ltd	11	● Morgan Grenfell	10
Brit. Bk. of Mid. East	10	Mount Credit Corp. Ltd	10
● Brown Shipley	10	National Bk. of Kuwait	10
CL Bank Nederland	10	National Girobank	10
Canada Permanent	10	National Westminster	10
Cayzer Ltd	10	Northern Bank Ltd	10
Cedar Holdings	11	Norwich Gen. Trust	10
● Charterhouse Bank	10	PK Finans. Intl (UK)	11
Citibank NA	10	Provincial Trust Ltd	11
Citibank Savings	¶10¾	R. Raphael & Sons	10
City Merchants Bank	10	Roxburghe Guarantee	11
Clydesdale Bank	10	Royal Bank of Scotland	10
Comm. Bk. N. East	10	Royal Trust Co. Canada	10
Consolidated Credits	10	Standard Chartered	10
Continental Trust Ltd	10	Trustee Savings Bank	10
Co-operative Bank	*10	United Bank of Kuwait	10
The Cyprus Popular Bk	10	United Mizrahi Bank	10
Duncan Lawrie	10	Westpac Banking Corp	10
E. T. Trust	11	Whiteaway Laidlaw	10½
Exeter Trust Ltd	10½	Yorkshire Bank	10
Financial & Gen. Sec	10		

● Members of the Accepting Houses Committee. * 7-day deposits 5.69%. 1-month 6.03%. Top Tier—£25,000+ at 3 months' notice 9.72%. At call when £10,000+ remains deposited. ‡ Call deposits £1,000 and over 6¼% gross. ¶ Mortgage base rate. § Demand deposit 5.82%. Mortgage 11%.

WORLD STOCK MARKETS

AUSTRIA

1986 High	Low	June 27	Price Sch
2,650	2,200	Credit'nst'lt pp	2,270
3,850	3,075	Goesser	3,420
16,000	13,300	Interunfall	14,550
21,750	18,000	Jungbunzlauer	18,900
2,475	1,950	Laenderbank	2,245
795	625	Perlmooser	660
211	150	Steyr Daimler	163
12,500	8,850	Veitscher Mag	11,390

DENMARK

1986 High	Low	June 27	Price Knr. %
424	315	Andelsbanken.	372
670	515	Baltica Skand.	625
348	256	Cop Handelsb'nk	270
470	355	D. Sukkerfab	350
381	298	Danske Bank	302
1,860	1,480	De Danske Luft.	1,550
298	199	East Asiatic	199
1,240	900	Forenede Brygg.	1,120
268	200	Forenede Damp.	208
668	430	GNT Hld.	435xr
820	565	I.S.S.B.	635
845	540	Jyske Bank	545
281	258	Novo Inds*	272
339	256	Privatbanken	260
470	319	Provinsbanken	349
339	268	Smidth (F.L.) B	278
1,020	815	Sophus Berend	815
331	250	Superfos	278

GERMANY

1986 High	Low	June 27	Price Dm
360	265	AEG.	303.3
2,875	1,190	Allianz Vers.	2,415
531.8	260.2	BASF	287
350	270	Bayer	297
688	515	Bayer-Hypo	558
675	468	Bayer-Verein	646

FRANCE

AUSTRALIA

JAPAN

NETHERLANDS

SWITZERLAND

HONG KONG

SINGAPORE

SOUTH AFRICA

SPAIN

NOTES—Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. * Price in Danish Kroner.

ITALY

NORWAY

SWEDEN

BELGIUM/LUXEMBOURG

CANADA

TORONTO

Closing prices June 27

MONTREAL

Closing prices June 27

Total Sales 3,252,730 shares

OVER-THE-COUNTER

Nasdaq national market, closing prices, June 27

Continued from Page 35

NEW YORK

Indices

Financials	29.51	29.38	29.49	28.93	28.57	31.15 (14/5) 25.19 22/1	31.15 14/5/86 8.64 1/10/74
N.Y.S.E. COMPOSITE	143.18	142.67	141.72	141.65	140.8	143.18 27/6 117.75 22/1	143.18 27/6/86 4.46 25/4/4
AMEX MKT. VALUE	283.13	283.85	284.4	281.65	281.19	285.19 25/6 240.80 4/2	285.19 25/6/86 29.13 9/12/74
NASDAQ OTC COMP.	403.53	403.87	398.92	396.88	396.4	403.53 27/6 323.81 9/1	403.53 27/6/86 54.87 3/10/74

DIVIDEND YIELDS	June 20	June 13	June 6	May 30	year ago (approx)
Dow Industrial	3.66	(u)	3.60	3.67	4.63
	June 11	June 4	May 28	May 21	
S and P Industrial	2.97	2.95	2.92	3.06	3.77
S and P Ind P/E ratio	17.86	17.91	18.03	17.23	11.54

TRADING ACTIVITY Millions	June 27	June 26	June 25
Volume †			
New York	124.62	134.85	162.72
Amex	11.64	13.64	13.24
O T C	138.30	124.16	112.93

New York	June 27	June 26	June 25
Issues Traded	1,943	1,931	1,959
Rises	871	720	964
Falls	659	764	595
Unchanged	—	447	400
New Highs	—	114	162
New Lows	—	17	14

CANADA

TORONTO	June 27	June 26	June 25	June 24	June 23	1986 High	1986 Low
Metals & Minerals	2098.52	2104.5	2133.52	2129.96	2123.61	2442.85 (21/3)	2025.3 (21/5)
Composite	3070.20	3068.8	3066.2	3058.1	3052.1	3129.11 (18/4)	2754.8 (17/2)
MONTREAL Portfolio	1562.18	1561.67	1557.46	(c)	1550.29	1623.55 (18/4)	1366.80 (22/1)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Sanders Assoc.	6,253,900	50½	+15⅝
Panhandle Pipe	4,122,900	46½	+4⅝
ITT	2,511,300	53¾	+1⅞
N. L. Ind.	2,109,500	14⅝	+½
Phil. Elec.	1,728,300	22⅛	+¼
Safeway	1,504,500	53½	+1⅞
Fruehauf	1,418,700	49½	+1
Schlumberger	1,343,100	34	+1⅛
Phibro-Salomon	1,153,500	48⅛	+¾
Rockefeller	1,088,700	19⅝	−⅛

HONG KONG Hang Seng Bank (31/7/64)	1750.98	1758.38	1758.72	1765.9	1885.65 (7/5)	1559.94 (16/5)
ITALY Banca Comm Ital. (1972)	665.49	684.92	671.71	674.86	908.28 (20/5)	454.67 (24/1)
JAPAN** Nikkei (16/5/49)	17680.45	17600.95	17616.63	17542.4	17680.95 (26/6)	12881.5 (21/1)
Tokyo SE New (4/1/68)	1360.14	1357.64	1356.88	1344.9	1357.64 (26/6)	1025.85 (21/1)
NETHERLANDS ANP-CBS General (1970)	291.5	291.2	290.1	288.9	292.3 (2/6)	248.4 (3/5)
ANP-CBS Indust (1970)	287.8	284.5	285.9	283.0	287.8 (27/6)	254.0 (5/3)
NORWAY Oslo SE (4/1/83)	358.38	360.7	364.6	368.01	402.31 (16/1)	382.25 (20/5)
SINGAPORE Straits Times (30/12/66)	762.34	768.02	771.44	766.73	776.88 (23/6)	585.34 (28/4)
SOUTH AFRICA JSE Gold (28/9/78)	—	1248.2	1258.7	1276.0	1507.9 (27/1)	1109.1 (21/4)
JSE Indust (28/9/78)	—	1175.6	1175.7	1172.8	1203.1 (20/5)	1088.5 (2/1)
SPAIN Madrid SE (30/12/85)	175.22	175.52	177.16	178.28	194.77 (12/5)	100.83 (8/1)
SWEDEN Jacobson & P (31/12/56)	2438.86	2428.45	2350.1	2403.97	2451.76 (17/6)	1729.57 (29/1)
SWITZERLAND Swiss BankCpn (31/12/58)	562.7	561.1	558.2	560.6	625.5 (8/1)	554.7 (28/2)
WORLD M.S. Capital Intl. (1/1/70)	—	325.2	325.8	325.1	325.2 (27/6)	249.8 (23/1)

** Saturday June 28. Japan Nikkei 17547.42. TSE 1350.65

Base value of all indices are 100 except Brussels SE—1,000, JSE Gold—255.7, JSE Industrial—264.3, and Australia, All Ordinary and Metals—500. NYSE All Common—50; Standard and Poors—10; and Toronto Composite and Metals—1,000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 Utilities. 40 Financials and 20 Transports. c Closed. u Unavailable.

Closing prices, June 27

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev Close
25¼	12¼	AAR s	.44	1.8	22	512	24½	24	24	
30	21¾	ADT	.82	3.2		322	29	28¾	29	+½
32¾	11½	AFG s			21	1209	32½	31⅞	31⅞	+¼
25¾	13¾	AGS			15	424	21	20⅜	20¾	+½
15	9⅞	AMCA				44	12½	12¼	12¼	−⅜
60⅝	37½	AMR			11	9830	54¼	53½	54⅛	+⅝
29¾	18⅝	AMR pf2.18		8.8		2	24⅞	24⅞	24⅞	
16¾	11⅛	ARX	.71t	5.9	11	113	12⅛	12	12⅛	+⅛
51	30¾	ASA	2a	6.3		338	32	31⅝	31⅞	+½
18⅝	10½	AVX		2.6		59	12½	12¼	12½	−½
32	22⅝	AZP	2.72	9.5	7	837	28¾	28⅛	28¾	+⅜
52½	28⅜	AbtLb s .84		1.6	26	2626	u53	51⅞	52⅞	−1
32	19⅝	AccoWd .56		2.0	19	620	27¾	27	27¾	−¼
17¼	10	AcmeC .40		3.3		100	12⅛	11¾	12	−1
9¼	7	AcmeE .32b		4.2	19	43	8	7⅝	7⅝	−¼
20¾	17	AdaEx 1.90e		9.4		50	20¼	20	20⅛	
33⅜	16	AdmMl .40		1.2	15	31	32¾	32¼	32¾	+½
20⅝	10¾	AdvSys .83t		4.9	15	137	17½	16¾	17	−½
32⅞	20⅜	AMD				2534	21¾	21⅛	21⅛	−⅛
12⅞	8	Adobe n				59	8⅛	8	8	
18¾	14⅝	Adob pf1.84		11		5	16¾	16⅝	16⅝	−⅛
20¼	15¼	Adob pf2.40		12		96	19¾	19⅝	19⅝	−½
18¾	7⅝	Advest .12a		.8	13	624	16¼	15⅞	16	
68¼	42¼	AetnLf 2.64		4.3	11	3423	62⅛	61	61½	−⅛
57½	51½	AetL pf4.28e		8.2		585	52⅞	52⅜	52⅝	
28⅝	9⅝	Ahmnss .48		1.7	9	7460	28⅛	27¼	27⅝	+⅜
5¾	2½	Aileen			100	161	5⅛	4⅞	5	−⅛
41⅝	29¾	AirPrd s .80		2.4	13	7888	34½	32⅞	33¾	−½
27¾	18¼	AirbFrt .60		3.1	17	75	19½	19⅜	19½	
10¼	7⅜	AlaP dpf.87		9.2		7	9½	9½	9½	
90¾	68¾	AlaP pf8.28		9.6		2250	86	86	86	+1
26⅜	15¼	AlskAir .16		1.0	10	346	16⅜	15⅞	16⅜	+⅜
25	8¼	Albrto s .21		.9	30	161	24½	24	24½	+½

Continued on Page 35

NYSE COMPOSITE CLOSING PRICES

Continued from Page 34

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
9⅝	4⅞	Winner				78	5½	5¼	5½	+¼
10⅝	4½	WinterJ.05e		.5	20	30	8⅝	8¼	8¼	−⅛
55¼	30¾	WiscEP2.68		4.9	13	718	u55⅝	54⅞	55	
103	76	WisE pf8.90		8.9		z20	100½	100½	100½	
27⅝	23¼	WisG pf2.55		9.3		6	27⅜	27	27⅜	
49⅞	28⅛	WiscPL2.84		5.8	12	286	49⅞	49¼	49⅜	−⅛
50¼	35¾	WiscPS2.86		5.7	11	217	u50⅜	49⅝	50⅜	+⅝
56⅝	33	Witco	1.48	2.7	14	497	55¼	54¾	55	
14	10	WolvrW.12j			21	202	10⅝	10¼	10⅝	+¼
48½	21⅝	Wlwth s1.12		2.3	16	958	48⅜	47⅜	48	+⅝
137	62⅞	Wolw pf2.20		1.6		2	134½	134	134½	−½
5⅝	3	WrldAr				69	4⅛	4	4⅛	
45⅞	22¼	Wrigly s	.96	2.3	20	1478	42⅝	41¾	42⅛	+½
4⅛	2⅝	Wurltzr				152	2⅞	2⅝	2⅝	−¼
17½	10½	WyleLb	.32	2.8	35	248	11¼	11	11¼	−¼
25¾	15	Wynns	.60	2.4		330	24⅞	24⅛	24¾	+¼
		X Y Z								
72¼	45¾	Xerox	3	5.5	13	4936	55⅜	54⅛	55	+¾
58¼	53¼	Xerox pf5.45		9.7		13	56	56	56	
28¾	20⅝	XTRA	.64	2.8		749	23	22⅝	22½	
17⅝	13½	Yorkln n				419	17⅛	16⅞	17	
39	26¼	ZaleCp 1.32		3.6		271	36½	36	36¼	−⅜
10⅝	3½	Zapata	.03j			3164	5⅛	4⅝	5	+¾
43⅝	23⅞	Zayre s	.32	.8	26	1670	42¼	41½	42	
17	11⅛	Zemex	.40	3.0	14	1	13½	13½	13½	
29⅞	16¼	ZenithE				358	25⅝	25⅛	25⅛	−⅛
18¼	8⅝	ZenLb s			21	1143	17	16⅛	16¼	−¾
22⅜	14⅛	Zero s	.29	1.7	17	108	17¾	17½	17½	+⅛
45¾	32¼	Zurn In 1.32		3.5	13	250	38¼	37½	37⅜	−⅜

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-divident or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Closing prices, June 27

OVER-THE-COUNTER

Nasdaq national market, closing prices, June 27

Continued on Page 33

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar to fall in spite of support

BY COLIN MILLHAM

The dollar is variable, within a fairly narrow range at present, and in the absence of unforeseen events there is little reason to expect any great move until the middle of July, when second quarter US gross national product growth is made known.

The long weekend holiday in the US, for Independence Day on July 4, and the Japanese general election on July 6, are likely to keep trading thin and nervous during the early part of next month.

During the last two months the dollar has been locked within a range of DM 2.20 to DM 2.30 against the D-Mark, apart from a brief fall to DM 2.17 in mid-May, and a climb to DM 2.3250 at the end of the month. The mid-May fall was inspired by demand for the yen, with the dollar touching a record trading low of Y159.99 in Tokyo.

Apart from these two short flurries, the market has failed to push the dollar outside a 10 pfennig range. Upward moves appear to have been largely fuelled by technical chart considerations, where the currency breaks through resistance and may then move quite swiftly to another point, calculated by technical analysis of market trends. But if it stalls at any of these levels, the downward correction can be quite sharp, particularly when economic fundamentals are pointing in the opposite direction.

This happened last week, when the dollar broke through DM 2.25, but failed to establish itself above DM 2.27, and within a few days was threatening DM 2.20.

The main factor limiting the downside, as far as the dollar is concerned, is fear of central bank intervention, but providing trading remains orderly this fear may be exaggerated. The West German Bundesbank bought a small amount of dollars at the end of April, at around DM 2.17, but even then it was not clear whether the central bank was actively trying to support the US currency.

On the other hand the Bank of Japan has been fairly active on a day-to-day basis, but not on a very large scale.

Members of President Reagan's Administration have indicated on several occasions that unless countries with strong economies, such as Germany and Japan, are prepared to accept faster economic growth rates, the dollar will continue to fall to correct the imbalance of trade against the US.

It should be noted however that in spite of a fall in the value of the dollar to around DM 2.20 from nearly DM 3.00 since the Group of Five agreement made in New York last September, and to Y165 from Y240 over the same period, there has been no sign of rising US exports.

The deficit with Japan for the first five months of 1986 was $25bn, against $19.8bn between January and May 1985, and for last month was $4.99bn, compared with $4.7bn in April.

The overall US trade deficit of $14.21bn in May reflected a steep rise in the volume of oil imports, but was well above market forecasts, which ranged from $11.5bn to $13.5bn.

News of the trade figures weakened the dollar on Friday, but dealers still appeared worried by the threat of central bank intervention, and were unwilling to push the US currency below DM 2.20 and Y165.

£ IN NEW YORK

June 27	Close	Prev. close
£ Spot	$1.5515-1.5525	$1.5210-1.5220
1 month	0.39-0.38pm	0.38-0.37pm
3 months	1.09-1.07pm	1.05-1.03pm
12 months	3.65-3.55pm	3.55-3.45pm

Forward premiums and discounts apply to the US dollar

CURRENCY MOVEMENTS

June 27	Bank of England Index	Morgan Guaranty Change %
Sterling	76.2	−15.2
U.S. dollar	115.0	+5.6
Canadian dollar	78.4	−12.5
Austrian schilling	126.5	+7.1
Belgian franc	95.4	−7.3
Danish Kroner	86.1	−1.0
Deutsche mark	135.3	+14.8
Swiss franc	160.9	+17.9
Guilder	125.3	+9.3
French franc	69.2	−13.4
Lire	46.2	−17.9
Yen	207.0	+52.5

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (base average 1975=100).

OTHER CURRENCIES

June 27	£	$
Arg'tina	1.3415-1.3435	0.8800-0.8100
Aus'alia	2.2725-2.2760	1.4905-1.4920
Brazil	20.99-21.12	13.77-13.84
Finland	7.8050-7.8250	5.1325-5.1375
Greece	211.38-215.61	138.97-141.77
H'kong	11.9000-11.9150	7.8090-7.8100
Iran	121.00*	79.05*
Kuwait	0.4470-0.4480	0.29315-0.29314
Lux'burg	69.00-69.10	45.10-45.20
Malaysia	4.0080-4.0100	2.6300-2.6330
N'Z'land	2.8105-2.8180	1.8425-1.8475
Saudi Ar.	5.7250-5.7270	3.7525-3.7555
Sin'pore	3.3515-3.3550	2.1990-2.2010
S Af. (Cm)	3.8005-3.8330	2.4970-2.5030
S.Af. (Fn)	6.3500-6.6255	4.1665-4.3475
U.A.E.	5.6015-5.6075	3.6720-3.6735

* Selling rate.

Correction for June 26; Finland $5.1550-5.1570. S'Af (Fn) £6.4555-6.7425.

CURRENCY RATES

June 27	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.770612	0.638817
US $	6½	1.17133	0.970089
Canadian $	8.79	*	1.34891
Austria Sch	4	18.2446	15.1534
Belgian Fr	8	53.1022	43.9062
Danish Kr	7	9.62848	7.96734
D'mark	3½	2.59614	2.14778
Guilder	4½	2.92461	2.41921
French Fr	9½	8.28013	6.84980
Lira	12	1782.22(1)	1477.690
Yen	3½	194.207	160.841
Norway Kr.	8	8.84823	7.33242
Span'h Pta.	—	166.801	137.559
Swedish Kr	8	N/A	6.95069
Swiss Fr	4	2.12946	1.76314
Greek Drch	20½	N.A.	136.262
Irish Punt	—	0.66818(1)	0.71147

* C$/SDR rate for June 27: 1.63050.

(1) SDR rate for: June 25.

POUND SPOT—FORWARD AGAINST POUND

June 27	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.5165-1.5300	1.5290-1.5300	0.40-0.37c pm	3.02	1.10-1.05 pm	2.81
Canada	2.1129-2.1224	2.1185-2.1220	0.36-0.27c pm	1.78	0.64-0.50 pm	1.08
Nethlnd.	3.78¾-3.80½	3.79½-3.80½	1¼-1c pm	3.65	3⅞-3⅜ pm	3.62
Belgium	68.69-69.10	69.00-69.10	20-15c pm	3.04	48-40 pm	2.58
Denmark	12.47¾-12.53	12.51-12.52	2¾-1⅝ore pm	2.10	4⅞-3½ pm	1.32
Ireland	1.1130-1.1185	1.1150-1.1160	0.08-par p pm	0.43	0.15-par pm	0.27
W. Ger.	3.36¾-3.37¾	3.36½-3.37¾	1⅝-1½pf pm	5.56	4⅞-4¾ pm	5.19
Portugal	227.92-230.73	229.00-230.70	90-250c dis	−8.88	290-760dis	−9.14
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Belgian rate is for convertible francs. Financial franc 69.75-69.85. Six-month forward dollar 2.05-2.00c pm. 12-month 3.73-3.63c pm.

FORWARD RATES AGAINST STERLING

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu June 27	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	43.6761	43.9062	+0.53	+0.61	±1.5388
Danish Krone	7.91896	7.96734	+0.61	+0.69	±1.6408
German D-mark	2.13834	2.14778	+0.44	+0.52	±1.1202
French Franc	6.96280	6.84980	−1.62	−1.54	±1.3701
Dutch Guilder	2.40935	2.41921	+0.41	+0.49	±1.5081
Irish Punt	0.712956	0.711470	−0.20	−0.13	±1.6669
Italian Lira	1496.21	1477.69	−1.24	−1.24	±4.0788

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

LIFFE LONG GILT FUTURES OPTIONS

LIFFE US TREASURY BOND FUTURES OPTIONS

LIFFE £/$ OPTIONS

LONDON SE £/$ OPTIONS

PHILADELPHIA SE £/$ OPTIONS

LIFFE—EURODOLLAR OPTIONS

LONDON

CHICAGO

CURRENCY FUTURES

DOLLAR SPOT—FORWARD AGAINST DOLLAR

June 27	Day's spread	Close	One month
UK†	1.5165-1.5300	1.5290-1.5300	0.40-0.37c pm
Ireland†	1.3600-1.3730	1.3720-1.3730	[illegible]

EXCHANGE CROSS RATES

EURO-CURRENCY INTEREST RATES

June 26	Short term	7 Days notice	Month
Sw. Franc	1.00-1.40	3⅝-3⅞	5⅛-5¼
Deutschmrk	4⅛-4⅜	4⅛-4⅜	4⅛-4⅝
Fr. Franc	7-10	7⅛-7¼	7⅛-7¼
Italian Lire	9-11	11¾-12¾	11¾-12⅝
B.Fr.(Fin)	7⅛-7⅜	7⅛-7⅜	7⅛-7⅜
B.Fr.(Con)	6¾-7⅛	6¾-7¼	6½-7⅛
Yen	5⅛-6⅛	4¼-4⅜	4⅛-4¾
D. Krone	9-9⅛	8½-9	8½-9
Asian $ (Sng)	7¼-7¾	7-7⅛	6⅞-7⅛

Long-term Eurodollars: two years 7⅝-7¾ per cent; three years 7¾-8 per cent; four years 8-8¼ per cent; five years 8¼-8½ per cent nominal. Short-term rates are call for US Dollars and Japanese Yen; others, two days' notice.

MONEY MARKETS

Bank indicates caution

The Bank of England gave some fairly clear indications last week that UK interest rates would not be reduced in the next few weeks. In its quarterly bulletin the Bank said unit labour costs were too high, and that interest rates might have to be kept high to encourage wage settlements to fall in line with inflation.

The quarterly bulletin was published on Thursday, and stressed the importance of improving competitiveness, on the same day it was announced that Britain's visible trade deficit in May had widened to £666m from £265m.

On Friday the authorities provided a large repurchase agreement, for a long period, at a rate in line with market levels, but rather higher than at least one large discount house expected.

UK clearing bank base lending rate 10 per cent since May 22

The agreement runs until July 22, and was provided at rates of 10-10 1/32 per cent, providing a clear message that the Bank of England does not envisage a cut in bank base rates before that time.

This will take the market beyond the Japanese general election on July 6, the next set of UK money supply figures on July 8, and second quarter US gross national product growth, around the middle of the month.

At the moment all the large industrial nations appear to have reasons for not cutting interest rates, including West Germany, where money supply growth is giving cause for concern. In Britain sharp money supply growth is also giving rise to concern, in spite of falling inflation. West Germany has an even more impressive record on inflation. In June year-on-year prices fell 0.2 per cent.

NEW YORK RATES

(4 pm)

BANK OF ENGLAND TREASURY BILL TENDER

	June 27	June 20
Bills on offer	£100m	£100m
Total of applications	£485.2m	£330m
Total allocated	£100m	£100m
Minimum accepted bid	£97.66	£97.615
Allotment at minimum level	46%	12%

WEEKLY CHANGE IN WORLD INTEREST RATES

LONDON	June 27	change	NEW YORK	June 27	change
Base rates	10	Unch'd	Prime rates	8½	Unch'd
7 day interbank	10 ⅜	+3/16	Federal funds	6 11/16	+⅛
3mth interbank	9 13/16	−1/16	3 Mth. Treasury Bills	6.29	Unch'd
Treasury Bill Tender	9.3029	−0.2021	6 Mth. Treasury Bills	6.30	−0.16
Band 1 Bills	9⅝	Unch'd	3 Mth. C D	6.64	−0.14
Band 2 Bills	9¾	Unch'd			
Band 3 Bills	9¾	Unch'd	FRANKFURT		
Band 4 Bills	9⅞	Unch'd	Lombard	5.5	Unch'd

FT LONDON INTERBANK FIXING

(11.00 a.m. June 27)

Three months US dollars: bid 6 11/16, Offer 6 13/16

Six months US dollars: bid 6 ⅜, Offer 6 ½

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 am each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

LONDON MONEY RATES

MONEY RATES